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HYPOSTAT 2011 A REVIEW OF EUROPE'S MORTGAGE AND HOUSING MARKETS

EUROPEAN MORTGAGE FEDERATION

Disclaimer

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Note: Housing and Mortgage Markets in 2011 overview and other country chapters written by the EMF.

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Note

Hypostat, published by the European Mortgage Federation, presents annual statistics on EU mortgage and housing markets, as well as data and information from several third countries such as the United States.

Data is presented in EUR. This may, however, introduce exchange rate distortions for countries outside the euro area. It should also be noted that due to the heterogeneity of sources used, not all data is comparable between countries. For more information on the definitions used, please refer to the Annex "Explanatory Note on Data".

y-o-y stands for year-on-year, while q-o-q stands for quarter-on-quarter.

Key Facts

The level of mortgage gross lending declined significantly in 2011

- In 2011, the EU27 mortgage market, as measured by the outstanding volume of residential mortgages, grew by 1.9% to reach EUR 6,535 billion, compared to an increase of 4.9% to EUR 6,410 billion in 2010 and a compound annual growth rate above 6% in the period from 2001 to 2011. Nevertheless, the figures registered in 2010 and 2011 have been partly distorted by the bilateral nominal exchange rate movements between the Pound Sterling and the euro. While the UK mortgage market grew by 0.3% in 2010 and 0.5% in 2011 in domestic currency, its value in euros increased by 5.1% in 2010 and 0.8% in 2011. As a result, the contribution of the UK to the EU27 mortgage market growth in euros decreased from 1.1% in 2010 to 0.2% in 2011.

- In the euro area, the volume of outstanding loans increased by 2% in 2011, down from 3.8% in the previous year. This slowdown is partly explained by the 2011 contributions of the Portuguese and Spanish mortgage markets to the euro area growth, which were negative for the first time in a decade. On the other hand, in line with 2010, the contribution of the French mortgage market to the euro area growth was above 1%.

- Regarding non-euro economies, most of the New Member State (NMS) experienced a robust growth in 2011, while outstanding mortgage loans in Sweden increased by around 5% in domestic currency.

- As a result of slower growth rates in outstanding mortgage lending in the EU27, the aggregate residential mortgage lending to GDP at current prices ratio decreased for the second time in the past fourteen years, down to 51.7% (from 52.4% in 2010). While this ratio grew by more than 5% on average per year between 2002 and 2007, it has increased at a much slower pace between 2007 and 2011, on the back of the noticeable slowdown observed in the growth of outstanding mortgage lending.

- The pre-crisis developments in the mortgage markets led to substantial increases in the level of indebtedness of households in all EU27 Member States, except Germany. In the context of the economic recession of 2009, concerns arose about the long-term sustainability of mortgage debt in some EU economies. Among the countries where the mortgage debt to available income of households ratio[1] was above 100% at the onset of the crisis, the Netherlands, Sweden and the United Kingdom have experienced deleveraging processes in 2011, bringing the ratio down by 0.6%, 3.4% and 0.8% respectively. On the other hand, this ratio continued to increase in Belgium, Finland and France.

- As regards gross lending, the picture is much gloomier. Among the EU27 countries for which data is available, only Belgium and Germany registered a cumulative growth between 2007 and 2011, at 23% and 21.7% respectively. Most of the other EU countries recorded marked declines in that period, with gross lending contracting by 93% in Ireland, 76% in Spain, 75% in Portugal, 61% in the UK, 31% in Denmark and 28% in Italy.

- In 2011, the escalation of the euro-area sovereign debt crisis led to higher cost of funds for banks and an increase in risk perception of banks, which, via the channel of lending standards, negatively affected gross lending. In a context of weak macroeconomic performance, high unemployment and a rapid deterioration in consumer confidence, the demand for new loans shrank abruptly after a noticeable recovery in 2010 and, as a consequence, further depressed gross mortgage lending. As a result, after a robust recovery in 2010, gross lending in the euro area contracted by more than 9% in 2011[2].

- In Q4 2011 and the first half of 2012, the monetary easing conducted by the ECB contributed to appease tensions in the interbank markets. As a result, the tightening in lending standards slowed down somewhat in Q2 2012 and the downward trend in demand observed between Q2 2011 and Q2 2012 started to ease in Q3 2012, despite continued low consumer confidence and poor housing market prospects.

The decline in construction eased somewhat

- After a deep contraction between 2007 and 2009, the number of building permits and housing starts increased moderately in 2010 and 2011 in the EU27[3]. However, the decline by the end of 2011, compared to the peaks registered in 2006, stood at 44.1% for building permits and 55.5% for housing starts. This mirrored a continuation of the correction from the historical highs in housing construction and the ongoing excess supply in some markets.

- As regards housing completions, national data for 2011 generally did not reflect some of the developments recorded in building permits and/or housing starts, as completions typically respond belatedly – at least with a one-year lag- to upswings in residential construction activity. Thus, the number of housing completions in 2011 decreased by 16.3% in the EU27[4], but is expected to stagnate in 2012, partially reflecting the fluctuations in the volume of building permits and housing starts observed in the two previous years.

- The aggregated figure masked diverse growth dynamics in residential construction activity at country level. In 2011, some countries experienced significant growth in the number of housing starts (France and Poland) and in the number of building permits (Estonia, Finland, France, Germany, Luxembourg, Poland and Romania). In a context of economic recession and decreasing house prices, some other domestic construction markets observed another sharp fall in the volume of housing starts (Bulgaria, Greece, Spain and Slovakia) and building permits (Bulgaria, Cyprus, Hungary, Spain and Slovakia).

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[1] This ratio also includes the non-profit institutions serving households (NPISH).

[2] The sample related to gross lending in the euro area includes Belgium, France, Germany, Ireland, Italy, Portugal and Spain (i.e. around 86% of the euro area's GDP at current prices). This data is provided by the *Quarterly Review Statistics* of the European Mortgage Federation.

[3] The index used for the EU27 includes the countries for which data is available between 2006 and 2011.

[4] Ibidem.

House prices continued to diverge across the EU27

- After decreasing in 2009 in all EU27 Member States except Austria, Belgium, Portugal and Sweden, nominal house prices developed in a heterogeneous manner across EU countries in 2010. This mixed picture was confirmed in 2011, as three broad trends appeared. First, some markets registered robust growth, such as Austria, Belgium, Estonia, France and Luxembourg. In Germany, Italy, and Sweden, nominal house prices grew moderately. Finally, nominal house prices continued to decrease in Bulgaria, Cyprus, Greece, Ireland, Portugal and Spain. In Denmark and the UK, after the increase recorded in 2010, nominal house prices contracted again in 2011. Once put into an historical context, nominal house prices in 2011 were above their 2008 levels in Austria, Belgium, Finland, France, Luxembourg and Sweden. In the meantime, between 2008 and 2011, nominal house prices stagnated in Germany, Italy and the UK, and declined significantly in Bulgaria, Cyprus, Greece, Hungary, Ireland, Spain and Slovakia. The picture with real house prices is broadly similar.

- The significant drops recorded in house prices in several housing markets led to better housing affordability on these markets. However, in 2011, decreasing or stagnating house prices negatively affected housing market prospects and, via the channels of lending standards and the demand for loans, further depressed gross lending. In addition, as housing remains a major component of the wealth of households and SMEs, decreasing or stagnating housing house prices dampened both private consumption and private investment and, consequently, real GDP.

The ECB's monetary policy: hesitation between hardening and easing

- In the context of the downturn observed in the second half of 2008 and 2009, monetary policy was eased substantially in all the EU27 countries. Central banks made several consecutive cuts in their respective policy rates between Q4 2008 and Q2 2009, which resulted in historical lows. Throughout the second half of 2009 and 2010, policy rates were maintained at these very low levels by the majority of central banks, with a view to strengthening the recovery. However, by end-2010, rising inflationary tensions, as a result of a new, significant increase in energy and food prices and the noticeable depreciation of the effective exchange rate of the euro, prompted the ECB and several other central banks to increase their policy rates in Q2 2011 and Q3 2011. Nevertheless, in Q4 2011, the anticipated easing in consumer-price inflation for 2012 and the sharp deterioration of the economic situation, resulting from the escalation of the sovereign-debt crisis in several Member States, led to an abrupt reversal in the ECB monetary policy. The ECB lowered its main refinancing rate by 50 bps, with two consecutive cuts between November and December 2011, taking it back to 1.00%.

- Regarding the transmission effect of the ECB's monetary policy on mortgage interest rates in the euro area, fixed mortgage interest rates started to rise again in January 2011 after more than 25 months of consecutive decreases, while the ECB's policy rate was increased only three months later. This lag might be explained by the much anticipated nature of the policy rate's increase in May, provoking a deterioration in the situation on the interbank market. Thus, the ensuing rise in the costs of funds may have led banks to increase mortgage interest rates, even before the actual increase in the policy rate. Conversely, fixed mortgage interest rates began to diminish in September 2011, partly due to the anticipated cut in the policy rate, which finally occurred in November.

Housing and Mortgage Markets in 2011

By Sylvain Bouyon, European Mortgage Federation

1. Macroeconomic overview

In 2011, real GDP growth in the EU27 reached 1.5%, slightly slower than the previous year. This is due to the q-o-q recession in Q4 2011 as the euro area sovereign debt crisis and the funding problems took their toll. As a result of the slowing growth of global output, the rise in oil prices, the persistent sovereign-debt crisis and weak consumer and business confidence, real GDP growth in the EU27 is expected to remain almost flat in 2012.

Among the best performers in the euro area, Austria, Germany and Slovakia were the only countries to record real GDP growth above 3% in 2011. While the Greek economy was still stuck in recession in 2011 and the real GDP of Portugal and Slovenia declined after a modest recovery in 2010, the Irish and Spanish economies returned to growth in 2011, after three years of contraction for the former and two for the latter. Nevertheless, Spanish GDP should experience a significant recession in 2012, amid a fragile banking sector, a still incomplete adjustment of the housing market, important fiscal consolidation and very high unemployment. In line with the process of convergence, the Central and Eastern European Countries (CEECs) continued to outperform GDP growth rates of the EU15 countries, with an average growth of 3%. However, these economies should slacken noticeably in 2012, down to 0.8% according to the spring 2012 forecast – EU. Uncertainties in the euro area, fiscal tightening and private deleveraging brought the UK real GDP growth down, from 2.1% in 2010 to 0.7% in 2011.

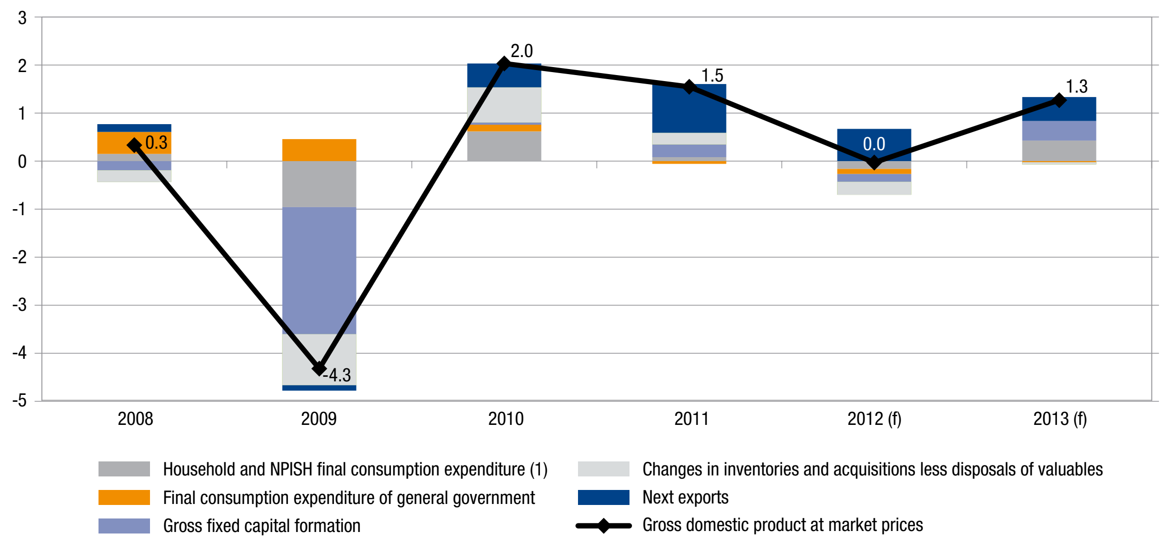
Net exports remained the main driver of growth in the EU27 (Chart 1). In 2011, exports increased by 6.3% in real terms, boosted by robust global economic growth (i.e. 3.9% at constant prices according to the IMF World Economic Outlook, April 2012). On the other hand, sluggish domestic demand in the EU27 led to stagnating imports. In 2012, the EU27 is likely to avoid a significant recession, essentially as a result of the positive contribution from net trade.

Reflecting the deep recession registered in 2009 and the successive rescue interventions in response to the financial crisis, the government debt to GDP ratio in the euro area increased from 66.3% in 2007 to 70.1% in 2008 and 79.9% in 2009. This upward trend started to ease in 2010 (i.e. at 85.6%) and stood at 88% in 2011. The long-term government debt to GDP ratio in the euro area is assumed to stabilize at around 90%, as a better control of government expenditures and a stronger environmental taxation in several countries reduced the public deficit to GDP ratio from 6.2% in 2010 to 4.1% in 2011. Nevertheless, the picture still varies across the euro area. The debt to GDP ratio in Greece, Ireland, Italy and Portugal was well above 100% in 2011 and should continue to rise in 2012, while it stood below 90% in 2011 in Germany and the Netherlands. As a consequence of this heterogeneity across countries and specific national difficulties, the dispersion of the sovereign credit default swaps and the long-term sovereign debt spreads in the euro area vis-à-vis Germany remains quite high (Chart 2).

In 2011, higher commodity prices and indirect taxes pushed inflation rates higher. In the euro area, headline consumer price inflation stood at 2.7%, up from 1.6% in 2010, while core consumer price[5] inflation increased from 1% in 2010 to 1.7% in 2011. In the EU27, headline inflation and core consumer price inflation reached 3.1% and 2.2% respectively. The slowdown observed in commodity prices by the end of 2011, and the weak outlook regarding the economic activity in the EU27 should slightly alleviate inflationary tensions in 2012.

The upside inflation risks in Q1 2011 prompted the ECB to increase its fixed rate on the main refinancing operations on 13 April 2011, after keeping it unchanged at 1.00% since May 2009. This rate was raised again on 13 July 2011, to reach 1.50%. In the first three quarters of 2011, this turning point in monetary policy was observed in the rest of the EU27 as well. Policy rates were increased in Denmark (from 0.75% to 1.25%), Hungary (from 5.75% to 6.00%), Poland (from 3.50% 4.50%) and Sweden (from 1.25% to 2.00%). However, in Q4 2011, the anticipated easing in consumer-price inflation for 2012 and the sharp deterioration of the economic situation, resulting from the escalation of the sovereign-debt crisis in several Member States, led to an abrupt reversal in the ECB monetary policy. The ECB lowered its main refinancing rate by 50 bps, with two consecutive cuts between November and December 2011, taking it back to 1.00%. This rate was cut once more on 11 July 2012, down to its historical low, at 0.75%. Equally, the Danish Central Bank (DCB), whose main objective is to keep the value of the krone stable with respect to the euro, cut its official rate twice by a total of 50 bps. In June 2012, the DCB lowered

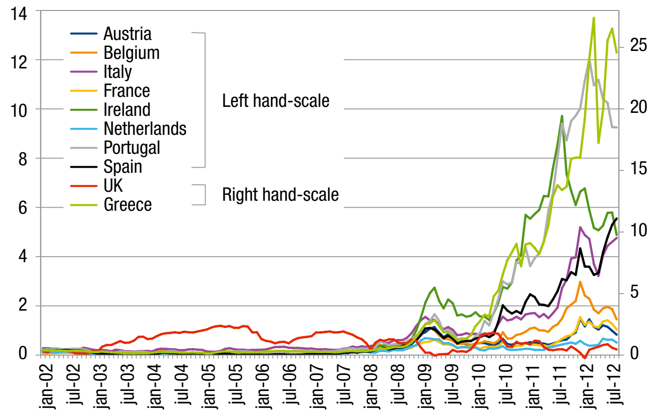
CHART 1 ▶ Contributors to the real GDP growth in the European Union (y-o-y contribution to real GDP growth)



Source: Eurostat
Millions of euros, chain-linked volumes, reference year 2005 (at 2005 exchange rates)
(1) NPISH: Non-profit institutions serving households

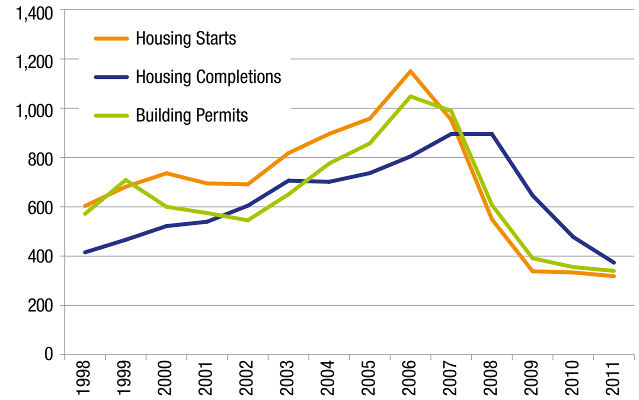
[5] The core HICP includes all-items excluding energy and unprocessed food.

CHART 2 ▶ Ten year government bond spreads versus Germany (Secondary market; government bonds with maturities close to ten years; in percentage points)



Source: ECB

CHART 3 ▶ Housing Supply Indicators, 1998-2011, EU6 (CZ, DK, PL, SK, SP, SW) (in thousands of units)



Source: European Mortgage Federation

its policy rate further, down to 0.25%. Amid a deteriorated economic outlook and low inflationary pressures, the Swedish Central Bank cut its repo rate twice in December 2011 and February 2012, by a total of 50 bps. Due to rising inflationary tensions, the Hungarian Central Bank raised its policy rate by 100 bps during Q4 2011, from 6.00% to 7.00%.

In addition, the ECB announced two Long-Term Refinancing Operations (LTROs), on 22 December 2011 and 29 February 2012, granting three-year loans to European banks at very low interest rates, for the amounts of EUR 489 billion and EUR 529 billion respectively. In some countries, a significant part of the LTRO funds was used by banks to purchase additional government bonds, which helped to maintain or, at best, decrease the long-term sovereign debt spreads in the euro area vis-à-vis Germany.

Aggregate EU27 employment increased by 0.2% in 2011, after declining for two consecutive years. Nevertheless, it should decrease once again in 2012 and stabilise in 2013. The unemployment rate increased slightly, from 10.1% in 2010 to 10.2%. As a result of the mediocre economic performance, the unemployment rate is expected to reach 11% in 2012. There are, however, large differences both in terms of unemployment rates and job creation across countries. In 2012, the unemployment rate should remain below 6% in Germany, Luxembourg, the Netherlands and Austria, while, it is expected to be above 19% in Greece and Spain. Regional and sectoral differences in the unemployment rate have also significantly increased since the onset of the crisis. Last but not least, the growing hysteresis effects observed in the unemployment rate over last few years, which has led some segments of the population to remain unemployed for several years, has become a major source of concern.

2. Housing markets

2.1 Housing supply developments

In 2010 and 2011, the number of building permits, housing completions and housing starts provided evidence of a slight easing in the decline observed between 2007 and 2009 in new housing supply in the EU countries for which data is available, even though the general correction in the housing market cycle continues (Chart 3). Due to the fact that data for some countries could not be obtained, aggregate figures for EU27 countries are not available and therefore a group of six countries (Czech Republic, Denmark, Poland, Slovakia, Spain and Sweden), for which a consistent set of data from 1998 to 2009 is available, was considered. In 2011, aggregate data for these six countries reveals that residential building activity was below its 1998 level. The decline by the end of 2011, compared to the peaks, stood at 67.5% for building permits (from 2006 to 2011), 72.3% for housing starts (from 2006 to 2011) and 58.2% for housing completions (from 2007 to 2011). This mirrored a continuation of the correction from the historical highs in housing construction and the ongoing excess supply in some markets. Additionally, expectations of future house price declines have slowed down new construction activity in several countries.

Figures available in 2011 confirmed the recovery with respect to the number of building permits recorded in some markets in the previous year, as the volume increased for two consecutive years in Estonia (9.6% after 24% in 2010), France (17.6% vs. 13.7%), Germany (21.6% vs. 5.5%), Luxembourg (11.1% vs. 5.3%) and Sweden (2.2% vs. 29.8%). In the Czech Republic and Poland, the volumes of building permits experienced their first increase in at least three years. However, for most other countries, significant declines were registered in 2011. In Belgium and Denmark, after a temporary rise in the previous year, the number of building permits decreased by 10.1% and 18.2% respectively. The number contracted for more than four consecutive years in Hungary, Portugal and Spain.

Developments in housing starts were broadly in line with the pattern identified above. In Belgium and Denmark, the recovery in 2010 proved to be relatively short-lived, as the volume of housing starts declined by more than 17% in both countries in 2011. Continued falls were observed in Spain (-9.5%) and Slovakia (-21.4%).

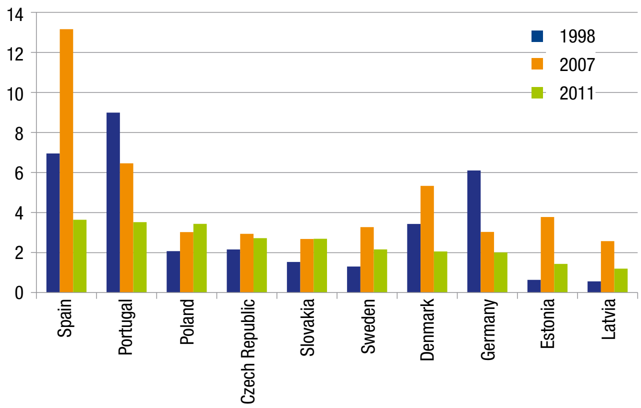
As regards housing completions, national data for 2011 generally did not reflect some of the developments recorded in building permits and/or housing starts, as completions typically respond belatedly – at least with a one-year lag- to upswings in residential construction activity. Thus, housing completions are likely to partially reflect the fluctuations in the volume of building permits observed in the previous year. This view is partly corroborated by the figures in Germany, Hungary and Portugal, where completions in 2011 appeared to correlate with the number of building permits registered in the previous year, rather than in 2011. The lagged response of completions to the volume of permits is also confirmed by the housing supply indicators (chart 3). Therefore, while the decline in the number of permits and housing starts appeared to noticeably slow down in 2010 and 2011, the decrease in completions showed no signs of easing during this period.

Against this background, among the EU27 countries for which data is available, an increase in the number of completions was recorded only in Germany (2.6%), Latvia (38.8%) and Sweden (4.1%). On the other hand, the volume of completions decreased slightly in Denmark (-0.3%) and Poland (-3.4%), and fell sharply in Bulgaria (-11.5%), the Czech Republic (-21.4%), Estonia (-17.5%), Hungary (-43.5%), Portugal (-13.6%), Slovakia (-14.5%) and Spain (-34.8%). As a consequence, this volume remained well below the peak seen prior to the crisis in Bulgaria (-36.7%), Czech Republic (-31.3%), Denmark (-63.7%), Estonia (-72.9%), Hungary (-73.2%), Poland (-20.6%), Portugal (-67.5%), Spain (-73.8%) and Sweden (-36.6%). Nevertheless, as the downward path in building permits and housing starts eased markedly in 2010 and 2011, the decline in the volume of completions is likely to slow down significantly in coming years in many markets.

The number of housing completions per 1,000 inhabitants in 2011 was generally much lower than in the previous year, owing to the downturn in housing activity in most EU countries. According to the EMF's figures, it decreased by 10.8% in Bulgaria, 21.6% in Czech Republic, 17.5% in Estonia, 43.3% in Hungary, 13.6% in Portugal, 14.6% in Slovakia and 35% in Spain.

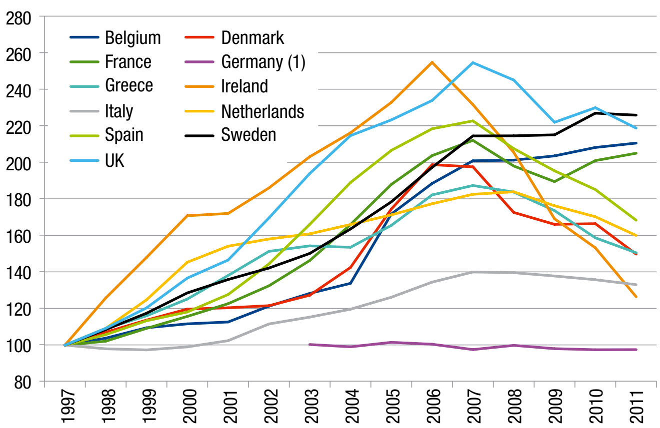
While housing completions per capita in 2011 were well below their late nineties' levels in most of the EU15 Member States for which data is available (Chart 4), the NMS completed more houses in 2011 than in 1998. Nevertheless, in 2011, most EU27 markets still experienced a correction process from the peaks in residential construction observed in the three years preceding the 2009 recession.

CHART 4 ▶ Housing Completions per 1,000 inhabitans



Source: European Mortgage Federation

CHART 5 ▶ Real House Price Indices, 1997-2011, (1997 = 100)



Source: European Mortgage Federation, Eurostat

The Real House Price Indice is the nominal house price (provided by the EMF) adjusted for inflation, using the HICP - All-items excluding housing, water, electricity, gas & other fuels (provided by Eurostat)

(1) Due to methodological reasons, the German data (2003 = 100) is reliable only from 2003.

2.2 Trend in house prices

Chart 5 shows the increase in real house price indices from 1997 to 2011. The entire "housing boom" cycle observed in the EU from 1997 to 2007 resulted in an increase in real house prices in most EU economies. Ireland and the UK recorded the strongest increase during this period (with real house price indices growth of 131.4% and 154.4% respectively). Belgium, France, Spain and Sweden also registered increases above 100%. This implies that, in the majority of countries, the growth of nominal house prices was more than double that of HCIP – all-items excluding housing, water, electricity, gas and other fuels.

Since 2008, real house prices have dropped almost continuously in Greece, Ireland, Italy, the Netherlands and Spain. The sharpest fall has been registered in Ireland, where the real house price index in 2011 reached 50% of its peak observed in 2006 and 126.5% of its 1997 level. On the other hand, in 2011, the real house price indices in Belgium and Sweden were higher than in 2007. In the UK, the real house price index in 2011 stood at 85.9% of its peak observed in 2007.

As a consequence of the "housing boom" observed in the decade before the crisis, the nominal house price to income ratio was well above its long term average in most of these countries in 2007. According to the OECD[6], the value of this ratio in comparison with its 35-year average[7] increased most significantly between 1998 and 2007 in the United Kingdom (from 78.6% to 145.9%), in Ireland (from 85.4% to 155.9%), in Spain (from 86.2% to 153.5%), in France (from 77.3% to 138.2%), in Denmark (from 94.8% to 155.9%), in Belgium (from 92% to 142.3%), in the Netherlands (96.9% to 145.4%), and in Sweden (from 87% to 129.6%). The value of this ratio increased on the back of continuous positive housing market prospects and decreasing mortgage interest rates, the average of which in the euro area fell from 6.06% in 1998 to 3.75% in 2005. Nevertheless, between 2005 and 2007, the average mortgage interest rate in the euro area increased to 5.00%, while the nominal house price to income ratio continued to rise. The resulting deterioration in housing affordability could partly explain the reversal of the housing boom in 2008 and 2009, when nominal prices dropped in many markets, despite the substantial decrease in mortgage interest rates.

After decreasing in 2009 in all EU27 Member States except Austria, Belgium, Portugal and Sweden, nominal house prices developed in an heterogeneous manner across countries in 2010 and 2011. Between 2009 and 2011, house prices declined by a cumulative 25.7% in Ireland, 10.1% in Spain, 7.6% in Hungary, 7.5% in Cyprus, 7.3% in Greece and 3.9% in Slovakia. Over the past few years, the consecutive yearly declines in housing prices observed in these markets brought the nominal house price to income ratio down to more reasonable levels compared to their long-term average, at 96.5% in Ireland, 122.7% in Spain and 100.7% in Greece.

On the other hand, nominal house prices in 2011 were above their 2009 levels in France (+11.9%), Estonia (+10%), Luxembourg (+8.8%), Austria (+8.4%), Belgium (+8.2%), the UK (+6.2%), Poland (+4.2%) and Germany (+2.7%). As a result, in 2011, the nominal house price to income ratio remained well above its long-term average in some of these countries, reaching 134.7% in France and 147.3% in Belgium. This poor affordability could lead to drops in the future, especially if the downward trend in mortgage interest rates is reversed.

The contrasting developments in housing prices appear to be partially explained by the trends observed in mortgage interest rates (Chart 6). In 2010 and 2011, tensions in European wholesale financial markets and specific economic situations led to divergent paths in mortgage interest rates among the Member States[8]. While representative interest rates on new mortgage rates significantly increased in Cyprus, Greece, Hungary, Ireland, Italy, Portugal and Spain, they decreased in Austria, Belgium, France, Germany, Poland and the UK.

House market conditions continued to reveal a mixed picture at the beginning of 2012. In Q1 2012, house prices in Belgium, France and Germany continued to increase y-o-y, having moved along an upward trend since 2010. On the other hand,

[6] See *OECD Economic Outlook, May 2012*.

[7] For the methodologies, see Girouard, N., M. Kennedy, P. van den Noord and C. André, "Recent house price developments: the role of fundamentals.", *OECD Economics Department Working Papers*, No. 475, 2006 and OECD estimates.

[8] As shown by the chart 8, the main factors tightening the lending standards are the cost of funds and balance sheet constraints for banks and the risk perception of banks regarding general economic activity and the housing market prospects.

house prices have continued to decrease on a yearly basis since the outbreak of the crisis in Ireland, the Netherlands and Spain. In the UK, the prices posted their first y-o-y increase since Q1 2011.

Heterogeneity can be observed across regions as well. For example, in Q1 2012, the y-o-y increase of 2.1% in France was driven primarily by house prices in the *Île de France*, which grew by 6%, while house prices in the rest of the country decreased by 0.5%. In Poland, changes in regional prices ranged between -8% and +4%. Relevant regional variations were also observed in the UK, where house prices rose more strongly in London and areas in the south east of England, and decreased most significantly in Northern Ireland (i.e. by 9% on Q1 2011).

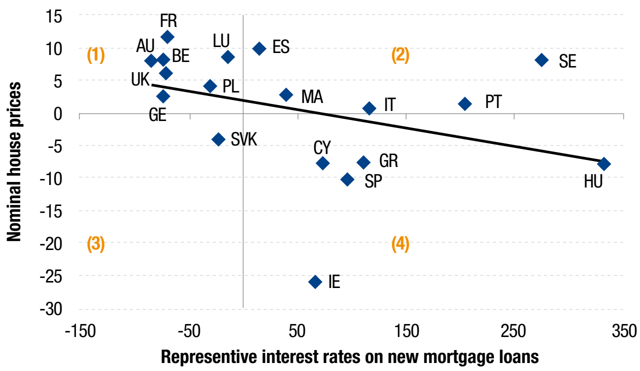
Putting the evolution of house prices into perspective, it is worth noting that the trends in house prices can have multiple spillover effects on banking activities and the economy as a whole. Firstly, in a context of decreasing house prices, the demand for new mortgage loans is likely to drop. In addition, banks might be at risk in case of foreclosures, especially if the loan to current value ratio is above 100%.

Secondly, as housing is a major component of wealth, house price fluctuations can affect households' consumption decisions. Rising house prices may stimulate consumption by increasing households' perceived wealth, or by relaxing borrowing constraints (Campbell et al. (2007))[9]. As a result, between 2006 and 2011, total private consumption in Member States appeared to partially correlate with house price developments (Chart 7). In addition, the impact of house prices on the consumption of households appeared strong enough to curb the negative effects of unemployment. According to Hryshko et al. (2010)[10], homeowners are able to maintain a high level of consumption following job loss (or disability) in periods of rising local house prices, while the consumption drop for homeowners who lose their job in times of lower house prices is substantial. The main factor behind these findings is that homeowners are able to access wealth gains when housing appreciates and can smooth consumption more than renters. As a consequence, the evolution of house prices may be determinant for the growth of banking activities such as consumer credit.

Thirdly, increases in households' perceived wealth and the relaxing of borrowing constraints, on the back of increasing house prices, might boost residential investment as well (in the context of the purchase of a second house), and thus the demand for new mortgage loans is likely to increase.

Finally, loans or credit lines to businesses are also likely to be affected by the level of house prices, as many loans to SMEs are secured by a residential property. In a context of decreasing housing prices, depressed collateral may lead some banks to review their rating methodologies by increasing collateral requirements. On the contrary, rising house prices generate wealth, ease collateral requirement and boost the demand of businesses for credit lines or loans.

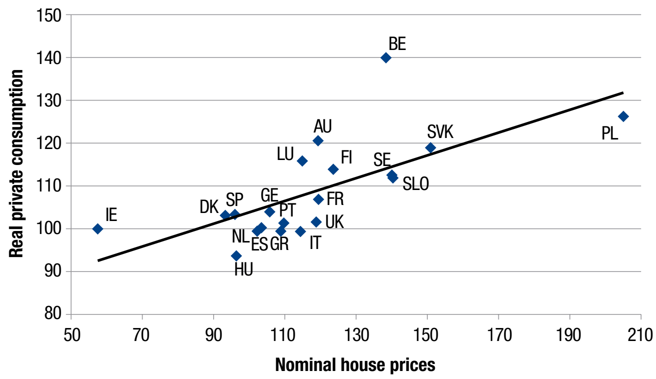
CHART 6 ▶ Representative Interest Rates on new mortgage loans and nominal house prices growth in 2011
(2009 = 100 for house prices and variation in bps for the interest rates between 2009 and 2011)



Source: European Mortgage Federation

(1) Decreasing interest rates and increasing house prices
(2) Increasing interest rates and increasing house prices
(3) Decreasing interest rates and decreasing house prices
(4) Increasing interest rates and decreasing house prices

CHART 7 ▶ Nominal house prices and private consumption in 2011
(2006 = 100)



Source: European Mortgage Federation and OECD

3. Mortgage Markets

3.1 Mortgage markets' developments

3.1.1 Outstanding residential mortgage lending

In the EU27, the aggregate volume of outstanding residential mortgage lending expanded by 1.9% to reach EUR 6,535 trillion in 2011, compared to an increase of 4.9% to EUR 6,410 trillion in 2010 and a compound annual growth rate above 6% in the period from 2001 to 2011. This modest performance can be partly explained by the bilateral nominal exchange rate movements between the Pound Sterling and the euro. While the UK mortgage market grew by 0.3% in 2010 and 0.5% in 2011 in national currency, its value in euros increased by 5.1% in 2010 and 0.8% in 2011. As a result, the contribution of the UK to the EU27 mortgage market growth decreased from 1.1% in 2005 to 0.2% in 2011.

As regards the euro area as a whole, the contribution to EU27 growth decreased from 2.6% in 2010 to 1.3% in 2011. Among the euro area countries, mortgage markets in Portugal and Spain decreased for the first time in more than a decade, resulting in a negative contribution to EU27 growth.

The residential mortgage lending to GDP ratio in the EU27 stood at 51.7% in 2011, compared to 52.4% in 2010 and 52% in 2009 (Table 1). 2011 marked the second decrease in the residential mortgage debt to GDP in the past fourteen years. While this ratio grew by more than 5% on average per year between 2002 and 2007, it has increased at a much slower pace since 2007, on the back of a noticeable slowdown observed in the growth of outstanding mortgage lending.

In the decade preceding 2008, this ratio grew by around 427% in Greece, 191% in Italy, 180% in Ireland, 157% in Spain, 73% in France and 71% in the UK. Admittedly, the NMS experienced even stronger growth rates. However this is mainly due to convergence processes, as mortgage markets in the NMS were still at embryonic stages at the end of the nineties. In 2007, although mortgage

[9] See Campbell, John Y. & Cocco, Joao F., 2007. "How do house prices affect consumption? Evidence from micro data," *Journal of Monetary Economics*, Elsevier, vol. 54(3), pages 591-621, April.

[10] See Hryshko, Dmytro & José Luengo-Prado, María & Sørensen, Bent E., 2010. "House prices and risk sharing," *Journal of Monetary Economics*, Elsevier, vol. 57(8), pages 975-987, November.

markets in the NMS recorded much more dynamic growth rates over the previous decade, they were still comparably smaller than the EU15, both in absolute terms and as a proportion of GDP (Table 1). At the onset of the crisis, the aggregated volume of outstanding mortgage lending in the NMS represented roughly 2% of the level recorded in the EU15.

It is finally worth noting that in Germany, where the mortgage market was countercyclical compared with other EU countries, the ratio decreased by more than 8% between 1998 and 2007.

In 2009, the deep recession registered in the EU27 brought the residential mortgage to GDP ratio up to record highs, above 50% for the very first time. In the wake of the crisis, the ratio fluctuated slightly at around 52%, as a result of a mild economic recovery and sluggish mortgage market growth. However, the aggregated figure masked diverse growth dynamics in mortgage lending at country level. Some countries experienced robust growth in outstanding mortgage loans in 2010 and 2011. Out of the ten Member States which recorded cumulative growth rates in mortgage lending above 15% between 2009 and 2011, seven were NMS (Cyprus, Czech Republic, Malta, Poland, Romania, Slovakia and Slovenia)[11]. In a context of economic recession and households' deleveraging, some other domestic mortgage markets observed a contraction in 2010 and 2011. Total residential mortgage lending declined by a cumulative 11.7% in Ireland, 11.6% in Latvia, 4% in Estonia, 1.7% in Spain and 1.6% in Lithuania.

3.1.2 New mortgage lending

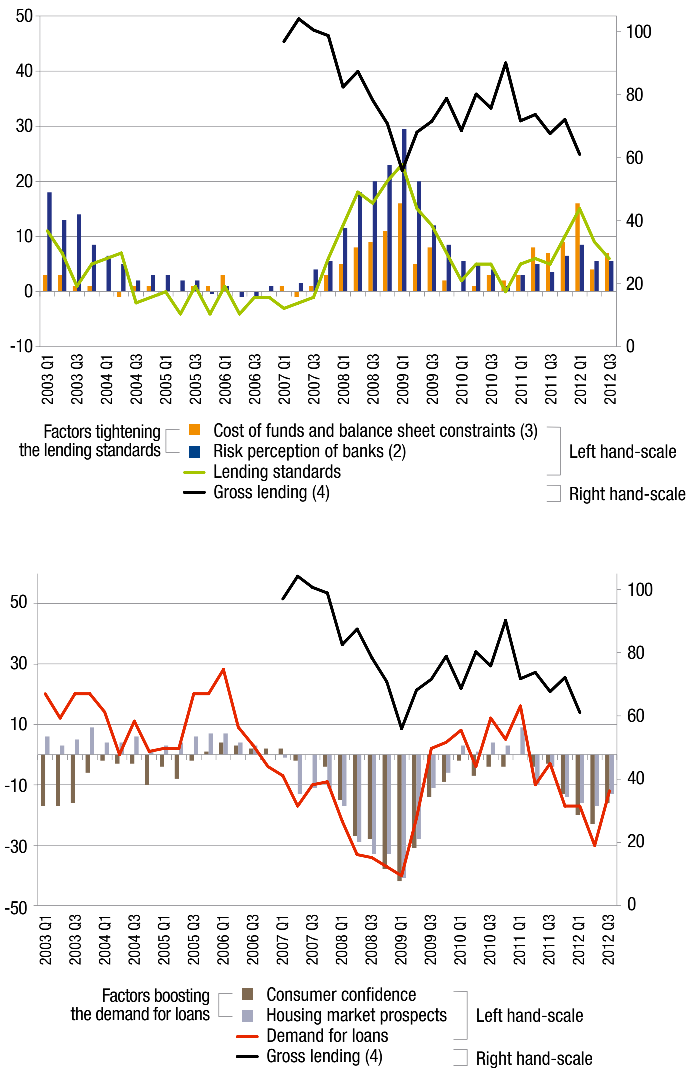
As regards new mortgage lending, the picture is much gloomier. Among the EU27 countries for which data is available, only Germany and Belgium registered a cumulative growth between 2007 and 2011, at 23% and 21.7% respectively. Most of the other EU countries recorded marked declines in that period, with new mortgage lending contracting by 92.7% in Ireland, 80.4% in Hungary, 77.1% in Estonia, 76.3% in Spain, 75.3% in Portugal, 69.4% in the UK, 31.3% in Denmark and 27.9% in Italy.

Table 1 ▶ Residential Mortgage Debt to GDP ratio (in %)

	2002	2007	2009	2011	Cumulative growth between 2009 and 2011
Austria	16.4	24.0	26.7	27.8	4.1
Belgium	27.8	37.7	44.7	47.2	5.5
Bulgaria	0.7	9.3	12.3	11.7	-4.8
Cyprus	7.8	43.8	61.9	71.3	15.1
Czech Republic	1.9	10.2	12.4	13.0	5.2
Denmark	74.0	92.9	104.0	100.9	-2.9
Estonia	7.6	34.6	44.2	36.7	-16.9
Finland	20.4	34.3	41.2	42.7	3.6
France	22.7	34.6	39.0	42.4	8.7
Germany	53.2	47.6	48.3	45.3	-6.3
Greece	13.6	30.5	34.3	36.4	6.3
Hungary	4.6	17.3	24.1	22.5	-6.6
Ireland	36.2	74.0	92.1	83.5	-9.4
Italy	10.0	17.5	19.2	22.9	19.7
Latvia	3.9	31.6	36.8	30.0	-18.3
Lithuania	2.2	17.0	22.8	19.3	-15.1
Luxembourg	27.7	39.1	44.9	47.3	5.5
Malta	19.6	37.0	42.4	45.2	6.5
Netherlands	80.2	97.8	107.5	106.2	-1.2
Poland	3.4	11.6	18.2	19.6	7.4
Portugal	46.3	59.7	65.7	66.6	1.5
Romania	n/a	3.2	4.9	5.5	13.5
Slovakia	3.9	12.3	15.0	17.8	18.8
Slovenia	0.8	7.7	11.1	14.5	30.3
Spain	35.9	61.4	64.4	62.1	-3.5
Sweden	46.5	65.5	81.1	78.1	-3.6
UK	62.1	85.0	87.7	83.7	-4.5
EU27	**38.9**	**49.5**	**52.0**	**51.7**	**-0.6**

Source: European Mortgage Federation

CHART 8 ▶ Bank Lending Survey in the Euro Area, Loans for house purchase (1)



Source: European Mortgage Federation and ECB

(1) The measure is the weighted difference ("diffusion index") between the share of banks reporting that credit standards have been tightened and the share of banks reporting that they have been eased. Likewise, regarding the demand for loans, the diffusion index refers to the weighted difference between the share of banks reporting an increase in loan demand and the share of banks reporting a decline. The diffusion index is constructed in the following way: lenders who have answered "considerably" are given a weight twice as high (score of 1) as lenders having answered "somewhat" (score of 0.5).

(2) The risk perception of banks includes the expectations regarding general economic activity and the housing market prospects.

(3) The cost of funds and balance sheet constraints include the banks' ability to access market financing and the banks' liquidity positions.

(4) The sample related to gross lending (2007 = 100) in the euro area includes Belgium, France, Germany, Ireland, Italy, Portugal and Spain (i.e. around 86% of the euro area's GDP at current prices). This data is provided by the Quarterly Review Statistics of the European Mortgage Federation.

[11] The three other countries were Italy, Luxembourg and Sweden.

In Q1 2012, the unfavourable macroeconomic environment continued to negatively affect new lending, with a y-o-y decrease in gross residential lending for at least three consecutive quarters in Belgium, France, Ireland, Italy, Portugal, Spain and Sweden.

Nevertheless, once put into a historical context, there were significant differences between the EU27 countries at the beginning of 2012. While the volume of gross lending observed in France, Germany and Belgium was comparable with the pre-crisis levels, this volume was at its lowest level in more than eight years in Ireland, Italy, Portugal and Spain. In the UK, despite a robust y-o-y recovery in Q4 2011 and Q1 2012, the volume of gross residential lending was still running at around a third of the pre-crunch levels.

The evolution in the volume of gross lending is mainly the result of developments in demand for loans for house purchases and lending standards (Chart 8). Since Q1 2007, increasing demand or an eased rate of decrease in this demand has generally contributed to a better performance of new mortgage activity, while the tightening of lending standards has generally depressed gross lending.

As regards the determinants of demand, consumer confidence and especially housing market prospects have shaped the households' decisions on house purchases (Chart 8). In addition, over the last decade, the demand for loans seems to inversely correlate with the movements in lending standards. During periods of strong tightening in lending standards, the demand for loans has generally decreased or its decline has accelerated, while easing or slight tightening in lending standards appears to have boosted demand or, at least, reduced the rate of decline in this demand.

On the other hand, the cost of funds and balance sheet constraints, as well as the risk perception of banks regarding general economic activity and the housing market prospects, have played a key role in the evolution of banks' lending standards. Thus, monetary policy and new regulation regarding the capital base of the sector might have a strong impact on lending standards and the mortgage activity.

In 2011, the escalation of the euro-area sovereign-debt crisis led to higher cost of funds for banks and an increase in risk perception of banks, which, via the channel of lending standards, negatively affected gross lending. In a context of weak macroeconomic performance, high unemployment and a rapid deterioration in consumer confidence, demand for loans shrank abruptly after a mild recovery in 2010 and, as a consequence, further depressed gross mortgage lending.

In Q4 2011 and the first half of 2012, the monetary easing conducted by the ECB contributed to appease tensions in the interbank markets. As a result, the tightening in lending standards slowed down somewhat in Q2 2012 and the downward trend in demand observed between Q2 2011 and Q2 2012 started to ease in Q3 2012, despite still low consumer confidence and poor housing market prospects.

3.1.3 Indebtedness of households

The pre-crisis developments in the mortgage markets led to substantial increases in the level of indebtedness of households in all EU27 Member States, except Germany (Table 2). Between 2002 and 2007, the residential mortgage debt to gross disposable income of households[12] ratio rose from 18.6% to 40.9% in Greece, from 73.5% to 148.3% in Ireland, from 14.3% to 25.2% in Italy, from 54.8% to 96.4% in Spain, from 37.6% to 63.2% in Finland, from 33.8% to 51.9% in France, from 91.2% to 135.4% in Sweden and from 92.1% to 135.4% in the United Kingdom. Much of this debt build-up appeared to have been the result of the interaction between rising house prices, continuous financial innovation and relatively low mortgage interest rates.

In the context of the economic recession of 2009 and of the numerous bankrupt households, concerns arose about the long-term sustainability of mortgage debt in some EU economies. Among the countries where the mortgage debt to available income ratio was above 100% before the crisis, Denmark, Ireland and the United Kingdom have seen growing deleveraging processes between 2009 and 2011, bringing the ratio down by more than 2.4% since 2009. In contrast, in a number of countries where this ratio was significantly lower in 2007, such as Belgium, Finland, France and Italy, the mortgage debt to available income ratio continued to expand in 2010 and 2011.

3.1.4 Banks' balance sheets

Between 2003 and 2007, the proportion of mortgage loans compared to banks' total assets remained relatively stable in the European Union (Chart 9). However, the aggregated figures covered the heterogeneity of national developments across the euro area. While the mortgage loans to banks' assets ratio grew noticeably in Finland, Greece, Italy, Portugal and Spain, it decreased in Germany and the Netherlands, as well as in the United Kingdom and Sweden. In the NMS, banks have been increasingly exposed to real estate developments, as the mortgage loans to banks' total assets ratio more than doubled in Czech Republic and Latvia between 2003 and 2007.

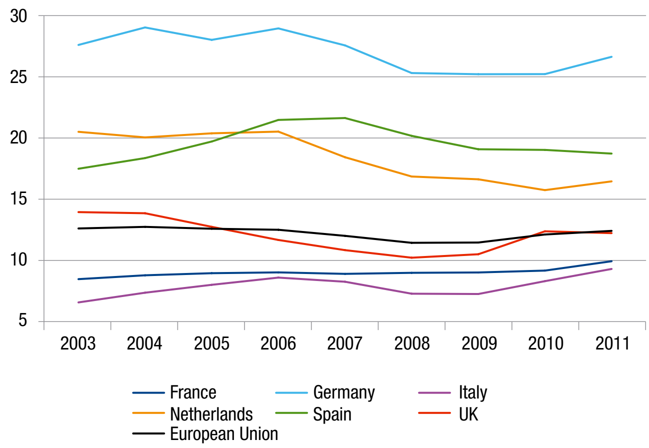
Table 2 ▶ Residential Mortgage Debt to Gross Disposable Income of Households and NPISH ratio (1) (in %)

	2002	2007	2009	2011	Cumulative growth between 2009 and 2011
Belgium	43.9	62.5	69.7	75.6	8.4
Czech Republic	3.2	18.7	21.5	23.6	9.7
Denmark	155.7	204.3	213.0	206.4	-3.1
Estonia	1.3	6.8	7.4	6.8	-7.8
Finland	37.6	63.2	67.1	70.6	5.3
France	33.8	51.9	56.4	61.6	9.2
Germany	78.3	71.8	69.8	66.9	-4.2
Greece	18.6	40.9	46.5	49.7	7.0
Ireland	73.5	148.3	158.2	154.3	-2.5
Italy	14.3	25.2	27.2	32.9	20.8
Latvia	6.3	54.4	55.4	49.2	-11.1
Netherlands	148.7	194.0	218.7	220.1	0.6
Poland	4.6	18.3	28.4	31.6	11.5
Portugal	66.1	85.4	90.0	90.7	0.8
Slovakia	6.2	20.9	23.3	26.9	15.5
Slovenia	12.2	12.5	17.1	22.0	28.5
Spain	54.8	96.4	94.1	94.3	0.2
Sweden	91.2	135.4	150.7	152.9	1.5
United Kingdom	92.1	135.4	129.7	125.4	-3.3

Source: European Mortgage Federation and European Commission (AMECO)

(1): NPISH: Non-profit institutions serving households

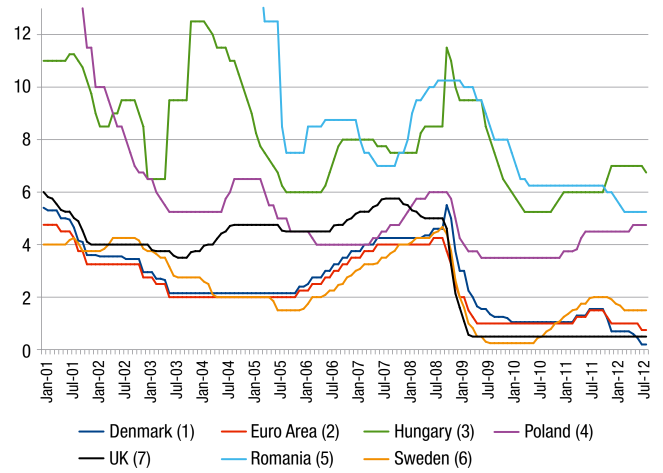
CHART 9 ▶ Lending for house purchase to total assets ratio of the main EU27 mortgage markets (in stocks, monthly average, Monetary and Financial Institutions, excluding ESCB)



Source: ECB

[12] This ratio also includes the non-profit institutions serving households (NPISH).

CHART 10 ▶ Policy rates of central banks (in %)



Source: ECB, European Mortgage Federation and National Central Banks

(1): Lending rate

(2): Interest rate for the main refinancing operations (variable rate tenders until October 2008 and fixed rate tenders afterwards)

(3): Base rate

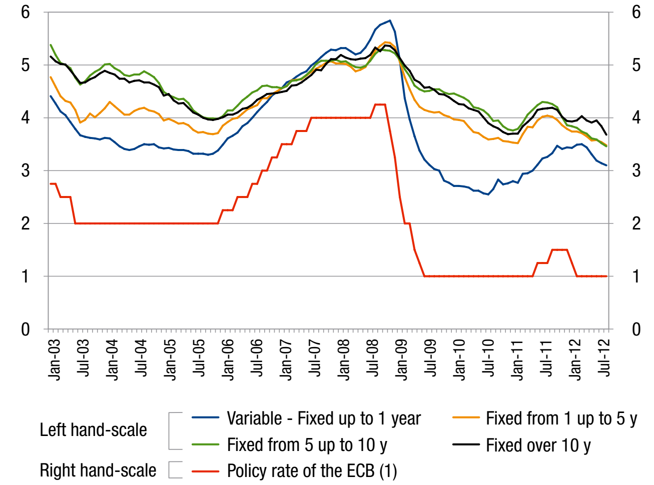
(4): Reference rate (rate on 14-day open market operations until December 2004 and on 7-day open market operations afterwards)

(5): Policy rate

(6): Repo rate

(7): Bank rate

CHART 11 ▶ Mortgage Interest Rates in the euro area and the ECB's policy rate, 2003-2012 (in %; Lending for house purchase excluding revolving loans and overdrafts, convenience and extended credit card debt, new business)



Source: European Central Bank

(1) Reference rate (rate on 14-day open market operations until December 2004 and on 7-day open market operations afterwards)

The upward trend registered in the size of the banks' balance sheets in the euro area between 2001 and 2007 noticeably eased in 2010 and 2011. This easing, associated with a sluggish growth in the volume of outstanding mortgages in the EU as a whole, explained why the mortgage loans to banks' total assets ratio was rather stable in the wake of the 2009 crisis. Thus, mortgage lending remained one of the key bank activities in the European Union.

3.2 Interest rates' developments

Between 2001 and mid-2003, most central banks in the EU27 cut their policy rates, amid decreasing inflationary pressures and sluggish economic growth (Chart 10). Over the period mid-2003 to 2005, significant cross-country differences were observed in the conduct of monetary policies. In the euro area, as economic growth was relatively low and the inflation rate stagnated at around 2.2%, the ECB maintained its policy rate at 2.00%. As regards the NMS, rampant inflation and robust economic growth led the central banks of these countries to increase their policy rates several times. Policy rates in Sweden and in the UK seemed to follow their own path during this period, while there was a strong correlation between the Danish lending rate and the ECB's policy rate, as the main objective of the Danish National Bank (DNB) is to keep the value of the krone stable with respect to the euro. In 2006, 2007 and the first half of 2008, the response of central banks to upside inflation risk, on the back notably of robust economic growth and the upward trend registered in the brent crude oil price and the prices of other primary commodities[13], diverged across the EU27.

In the context of the downturn observed in the second half of 2008 and 2009, monetary policy was eased substantially in all the EU27 countries. Central banks made several consecutive cuts in their respective policy rates between Q4 2008 and Q2 2009, which resulted in historical lows. Throughout the second half of 2009 and 2010, policy rates were maintained at these very low levels by the majority of central banks, with a view to strengthening the recovery. However, by end-2010, rising inflationary tensions, as a result of a new, significant increase in energy and food prices and the noticeable depreciation of the effective exchange rate of the euro, prompted the ECB and several other central banks to increase their policy rates in Q2 2011 and Q3 2011. Nevertheless, in Q4 2011, the anticipated easing in the consumer-price inflation for 2012 and the sharp deterioration of the economic situation, resulting from the escalation of the sovereign-debt crisis in several Member States, led to an abrupt reversal in the ECB monetary policy. The ECB lowered its main refinancing rate by 50 bps, with two consecutive cuts between November and December 2011, taking it back to 1.00%.

Chart 11 shows the transmission effect of the ECB's monetary policy on mortgage interest rates in the euro area. Generally, between 2003 and 2010, the monetary policy transmission channel seemed to function properly, as the fluctuations in the ECB's policy rate seemed to have an almost immediate impact on the course of mortgage fixed interest rates.

In 2011, fixed mortgage interest rates started to rise again in January after more than 25 months of consecutive decreases, while the ECB's policy rate was increased only three months later, for the first time since May 2009. This lag can be explained by the much anticipated nature of the policy rate's increase in May, provoking a deterioration in the situation on the interbank market. Thus, the ensuing rise in the costs of funds led banks to increase mortgage interest rates, even before the actual increase in the policy rate. Conversely, fixed mortgage interest rates began to diminish in September 2011, due to the anticipated cut in the policy rate, which finally occurred in November. Tensions on the interbank market eased and the costs of funds lessened.

As regards the different types of mortgage interest rates, the spread between variable interest rates and fixed interest rates tends to grow in periods of low interest rates and to decrease when interest rates tend to increase (Chart 11). For

[13] Between 2005 and 2008, according to the OECD, the cumulative growth was 80% in the brent crude oil price and 87% in the prices of food and tropical beverages.

example, in the course of 2009, fixed interest rates decreased considerably, as a result of substantial monetary policy easing, and the spreads between the average variable interest rate and the three common types of fixed rates in the euro area considerably widened, reaching 126, 175 and 161 bps respectively in November 2009, while, at end-2008, these spreads were only -3, 1 and 4 bps respectively.

Spread dynamics are the result of cultural factors (such as borrowers' risk awareness), of the predominant type of funding sources, of interest rate caps/floors, as well as of the anticipations of borrowers. Indeed, borrowers favour variable interest loans in a context of high interest rates, since the probability of a future decrease in the reference rate is higher. On the other hand, borrowers are likely to prefer fixed interest rate loans in periods of low interest rates, as the risk of future increases in the reference rate grows. As a consequence, against the backdrop of low interest rates, low cost of funds and the expected increase in the reference rate, banks are likely to reduce variable interest rates further in order to make variable rate loans more attractive.

In the first half of 2011, the tightening of the ECB's monetary policy led to higher interest rates; however, globally, this does not seem to affect spreads noticeably (Chart 11). This absence of spread reaction might be due to the anticipations of borrowers and lenders, who considered this increase in the policy rate to be only transitional.

Evolution of housing finance policy in the Russian Federation: ideas, interests, institutions - a historical overview

By Dr Marina Khmelnitskaya, Junior Research at Fellow St Antony's College, Oxford

Development of the market of housing finance in Russia as well as housing policy more broadly presents a somewhat patchy picture. The mortgage market in the country has demonstrated significant growth in the years following the global financial crisis. Russia has been described as having the highest potential for the development of the secondary mortgage market and covered bonds in particular.[14] And yet, the mortgage debt to GDP ratio stood at 2.72 % in 2011.[15] This appears as modest both in comparison to the countries with developed housing markets and in comparison to the countries that share with Russia its socialist past.[16] Historically, housing deficit was one of the most pressing concerns during the Soviet period and in contemporary Russia, popular demand for housing remains substantial – research conducted by the Moscow-based Institute for Social Policy demonstrates that up to 73.9% or three quarters of the Russian population have a need to improve their housing conditions.[17] Moreover, according to opinion polls, a majority of the respondents are concerned about the problems associated with the operation of the residential utility services.[18] Despite the high demand for new accommodation, a number of commentators point out that mortgage finance remains inaccessible to a large proportion of Russians while many of the country's residents hold a rather hostile attitude to the very idea of taking out a mortgage loan.[19] In such conditions, perhaps unsurprisingly, housing appears high on the policy-makers agenda. The programme of the United Russia party which won parliamentary elections in December 2011 lists residential development as one of its main economic objectives.[20] During the 2011-2012 presidential campaign, Vladimir Putin referred to the issue of affordable mortgages among his key pre-election promises.[21]

This contribution focuses on the policy of the Russian government in the area of housing finance. It offers a historical overview of this policy sphere from the perspective of the public policy literature within political science. The development of housing finance in Russia is interpreted in terms of the completion between different broad frameworks of policy or policy paradigms. The article demonstrates that in the 1990s in the sphere of housing finance, Russia made a shift from the Soviet paradigm of socialist distribution of housing by the state to a specific version of a market paradigm. The market paradigm adopted by Russian policy-makers includes the development of the system of residential mortgages issued by banks with the assistance of a mortgage agency. This model, nevertheless, has been contested by alternative policy models or paradigms, which include greater reliance on household savings for housing purposes and the use of securitisation, covered bonds specifically, to generate greater volumes of secondary mortgage funding. While certain policy advances of these alternative models are noted, the paradigm adopted in the 1990s continues to predominate. The attachment of the Russian government to this model is explained by reference to the ideas it shares about the development of the Russian economy at large, the interests of the policy actors at different levels as well as institutional path dependence.

1. The Soviet paradigm of socialist distribution

The housing policy of the Soviet Union was structured around a paradigm of 'socialist distribution'. In the sphere of housing finance this meant that state investment in housing construction predominated over other forms of housing investment. The massive housing development programme launched by Nikita Khrushchev in the late 1950s, which continued until 1991, allocated nearly 70 million apartments to just under 300 million Soviet citizens by the late 1980s. This was probably one of the most grandiose projects of mass housing development ever undertaken by any government.[22]

In addition to state investment, the population's own resources were involved in Soviet housing development too, although on a much lower scale compared to the volumes of state funding. Here we see a modest use of borrowed funds. Members of co-operatives as well as citizens wishing to construct private housing could receive state loans payable over a 15-20 year period. The loans could be granted by the state savings banks (Sberbank) or by state enterprises, organisations or farms. The use of housing credit in the Soviet Union was not developed extensively. Only 7 % of housing investment was covered by bank loans.[23]

The results of housing investment policies based on the paradigm of socialist distribution were far from enviable. Over more than 70 years of Soviet history, the country had lived through a never-ending housing crisis, with nearly a quarter of households being placed on waiting lists to receive adequate accommodation.[24] Housing shortages alongside the elite privileges and corruption involved in the distribution of this scarce commodity, as well as the poor quality of housing services caused tremendous dissatisfaction among the people. They were also criticised by Soviet social scientists, demographers in particular, for their negative effects on the family structure and birth rates.

2. Establishment of the market paradigm in Russian housing finance

In response to these failures and particularly the severe housing shortages, some tentative steps to transfer the housing sector onto a market basis, to permit greater private ownership and private investment, were taken by the Soviet authorities during the years of *perestroika*. However, radical reform of housing policy was undertaken by the Russian Federation in the final Soviet years and after its independence in 1991.

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[14] Lassen, T., 2012, Development of the Russian Covered Bond Market, *European Mortgage Federation, Mortgage Info*, April

[15] Agenstvo po Ipotechnomu Zhilishchnomu Kreditovaniu (AIZhK), 2012, Ob Agenstve, Analytika i statistika, available at http://www.ahml.ru/ru/agency/analytics/statsis/

[16] For example, the Residential Mortgage Debt to GDP ratio according to the 2010 EMF HYPOSTAT (Table 1, p. 69) was for Ukraine – 8.5%, for Czech Republic - 12.8%, for Poland – 19.1%, and for Latvia 36.2 %.

[17] Individuals in this large category may have one or a combination of the following reasons to aspire to better housing: accommodation smaller than the official norm of housing per person, insufficient number of bedrooms in the dwelling, rental or communal (shared) accommodation, and a multi-generational household. See: Burdyak, A. Ya., 2012, Ipoteka v Rossii: potrebnosti, vozmozhnosti i namereniya naseleniya, *Finansy i biznes*, No.2, pp.: 76-92, page 84

[18] VTsIOM, 2012, *V preddverii vyborov: chto trevozhit Rossiyan*, Press release N 1968, 02 March 2012, available at http://wciom.ru/index.php?id=459&uid=112568

[19] Zavisca, J., 2012, Housing the New Russia, Ithaca and London: Cornell University Press

[20] Pavlovskiy, G. (ed.), 2011, *Agitator 'Edinoy Rossii'*, Moskva: Evropa

[21] Kvasha, M. and Pogorelova, Yu., 2012, Putin i Zhil'e, *Kommersant" Den'gi*, N°7 (864), 20 February, available at http://www.kommersant.ru/doc/1863442

[22] Ruble, B., 1993, From Khrushcheby to Korobki, in W. C. Brumfield and B. A. Ruble (eds.), *Russian Housing in the Modern Age: Design and Social History*, Washington DC, USA and Cambridge, UK: Woodrow Wilson Center Press and Cambridge University Press, pp.: 232 - 270

[23] Aganbegyan, A., 1989, Inside Perestroika: *The Future of the Soviet Economy*, New York: Harper & Row

[24] *Narodnoe Khoziaystvo SSSR za 70 Let*, 1987, Moskva: Finansy i Statistika, page: 519

In the post-Soviet period, specifically between 1992 and 2004, the Russian government introduced a set of policies aimed at the spread of private housing ownership via free privatisation of existing housing stock and the development of mortgage finance with the objective of reducing housing shortages and allowing the Russian people to look after their housing needs using market mechanisms. The first of these legislative initiatives included the Law on 'Basic Principles of Russian Housing Policy' adopted in December 1992[25] and the government programme 'Housing' (*Zhilishche*) adopted in June 1993.[26] In these early documents, policy-makers put an emphasis on the development of mortgage lending by banks and the establishment of a mortgage agency, a quasi-governmental financial institution that would also become the industry regulator.

This model was elaborated further in a series of legislative acts throughout the 1990s and the early 2000s. The Agency for Home Mortgage Lending (AHML) modelled after the Federal Mortgage Association of the USA (Fannie Mae)[27] was established in 1996.[28] The law on mortgages was signed by President Yeltsin in July 1998[29], albeit after a protracted legislative process in the national parliament, in which the left-wing parties opposed the government draft. The Law on mortgage securities adopted in November 2003[30] defined the rules for the organisation of secondary mortgage funding mechanisms via the issuance of securities. Two basic types of securities were adopted: Mortgage Backed Securities (MBS) and covered bonds.

The institutionalisation of the model of Russian housing finance was finally complete with the adoption of the Housing Code in December 2004.[31] The Code substantially reduced the state's commitment to the provision of social housing: from 4.5 million families or 10% of Russia's population placed on waiting lists for social housing before March 10 2005, when the Code came into force, to 5% of those on the lowest incomes after that date. The remainder of the public were required to use the system of mortgage borrowing to improve their housing situation. To quote one of the authors of the Housing Code, Pavel Krasheninnikov aptly commented that the new Code finally ended an entire era in Russian housing history characterised by an unsustainable principle: *'free housing for everyone'*.[32]

The adoption of this paradigmatic framework can be explained with reference to policy ideas inspired by the American experience in the sphere of housing development and housing finance. These ideas were shared by the reformers in the Russian government and their advisors from the early 1990s. Important also was the popularity of housing privatisation (central and most-visible of the reform measures) with the general public. At the same time, the idea of the mortgage agency funded from the budget was supported both by the Russian federal and regional governments. The regional versions of the AHML which started to be formed from the mid-1990s onwards would help to fund the mortgage operations of authorised regional banks.

3. The performance of the Russian paradigm in housing finance and proposed alternatives

Since its institutionalisation, the Russian government remains committed to the development of mortgage credit by banks and the associated mortgage agency despite the criticisms raised among the community of housing and banking specialists towards this framework. Such intellectual groups have offered alternative paradigmatic policy solutions which they argue could be helpful in the Russian context. The latter proposals, however, have so far had a limited impact on government policy towards housing finance.

How well does the framework of housing finance adopted in Russia perform in practice? The popular measure of housing privatisation achieved remarkable results. Already, by the end of the 1990s, around 60% of housing in Russia was in private hands. During the 2000s its share proliferated further. In 2011, according to Rosstat data, 76% of apartments eligible for privatisation were privatised bringing the total of privately owned housing to over 80 percent.[33] Yet, the scale of mortgage borrowing reached a mere 0.1 percent of GDP in 2000.[34] This was explained with reference to the economic downturn during the 1990s and the decline in the population's living standards. In such a volatile setting, banks faced high risks on their mortgage operations and offered mortgages on what can be considered as harsh borrowing terms to their customers. Mortgage deposits in most cases were no less than 30%. Borrowing was short term, for around a five-year period, and at 30-35% interest rates on loans in US dollars.[35]

During the 2000-2011 period, general economic conditions in the country, although interrupted by the global financial crisis in 2008-2009, improved steadily, as did the scale of mortgage lending. In 2011, Russian banks issued over half a million mortgages for RUB 716.9 billion (i.e. the number of mortgage loans and the volume of credit increased by 70% and by 90% respectively). This also means that in 2011, the volumes of mortgage lending exceeded the pre-crisis high achieved in 2008. Moreover, according to the AHML statistics, in the second half of 2011 average interests rates decreased to 11.9% on Ruble loans –interest rates were 14.4% at the start of 2009, in comparison[36] – while the mortgage debt to GDP ratio reached 2.72% by the end of the year.[37] This represents a substantial advance of mortgage borrowing in the country compared to the levels that existed a decade earlier.

Nevertheless, some sceptics highlight the fact that the scale of mortgage lending in Russia is modest compared to other countries and the terms of borrowing continue to deter potential borrowers. Moreover, they point to the generally low affordability of mortgage finance to the majority of Russian households. The estimate of what percentage of Russians can afford mortgages differs from as low as 10% reported in some publications[38] to 22.6% in others.[39] The conclusion is often reached that a form of state support is necessary to make Russian housing policy based on mortgage borrowing more relevant to the majority of the public.

Government policy initiatives since the mid-2000s have made persistent efforts to address the issue of the low affordability of mortgage borrowing by the general public by focussing on economic development and the increase of household income levels as well as making mortgages more accessible. Specifically in this regard can be noted the launch of the National Project 'Affordable Housing' in 2006. With the National Project, the government hoped particularly to encourage young families to take out mortgages. Following on these initiatives in 2011 for instance, the government via AHML was offering several types of subsidised mortgage products to a number of household categories such as families with

[25] Ob osnovakh Federal'noi zhilishchnoi politiki, Zakon Rossiyskoi Federatsii N. 4218-1, adopted on 24 December 1992. *Vedomosti S"ezda narodnykh deputatov Rossiyskoy Federatsii i Verkhovnogo Soveta Rossiyskoy Federatsii*, 1993, no. 3, st. 99

[26] Gosudarstvennaya tselevaya programma "Zhilishche", Postanovlenie Soveta Ministrov – Pravitel'stva Rossiiskoy Federatsii N. 595, adopted on 20 June 1993. *Sobranie Aktov Prezidenta i Pravitel'stva Rossiiskoy Federatsii*, 1993, no. 28, st. 2593

[27] Struyk R. J. and Kosareva, N. B., 1999, Natasha Mae: first secondary facility in the former Soviet bloc, *Housing Finance International*, 13/3; pp.: 29-36

[28] Ob agenstve po ipotechnomy zhilishchnomy kreditovaniu, Postanovlenie Pravitel'stva Rossiiskoy Federatsii N. 1010, adopted on 26 August 1996. *Sobranie Zakonodatel'stva Rossiyskoy Federatsii*, 1996, no. 37, st. 4312

[29] Ob Ipoteke (zaloge nedvizhimosti), Federal'niy Zakon N. 102-FZ, adopted on 16 July 1998. *Sobranie Zakonodatel'stva Rossiyskoy Federatsii*, 1998, no. 29, st. 3400

[30] Ob ipotechnykh tsennykh bumagakh, Zakon N. 152-FZ, adopted on 11 November 2003. *Sobranie Zakonodatel'stva Rossiyaskoy Federatsii*, 2003, no. 46, st. 4448

[31] Zhilishchniy Kodeks Rossiyskoy Federatsii, N.188-FZ, adopted on 29 December 2004. *Sobranie Zakonodatel'stva Rossiyskoy Federatsii*, 2005, no. 1, part I, st. 14

[32] Krasheninnikov, P. V., 2008, *Zhilishchnoe Pravo*, Moskva: Statut, page 5

[33] Federal'naya Sluzhba Gosudarstvennoy Statistiki, 2012, Zhilishchniy Fond: Osnovnie pokazateli zhilishchnykh usloviy naseleniya, available at http://www.gks.ru/free_doc/new_site/population/jil-f/jkh39.htm

[34] World Bank, 2003, *Developing Residential mortgage markets in the Russian Federation*, Infrastructure and Energy Department, Europe and Central Asia Region, available at http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/RUSSIANFEDERATIONEXTN/0,,contentMDK:20531571~pagePK:141137~piPK:141127~theSitePK:305600,00.html

[35] Suchkov A and Klepikova, E., 1997, Housing finance reform in Russia, in Struyk, R.J. (ed.), 1997, *Restructuring Russia's Housing Sector, 1991-97*, Washington, DC: The Urban Institute, pp.: 23-46

[36] Agenstvo po Ipotechnomu Zhilishchnomu Kreditovaniu (AIZhK), 2011, *Godovoy Otchet* 2011, available at http://www.ahml.ru/common/img/uploaded/files/agency/reporting/annual/annual_report_2011.pdf , page 10

[37] Agenstvo po Ipotechnomu Zhilishchnomu Kreditovaniu (AIZhK), 2012, Ob Agenstve, Analytika i statistika, available at http://www.ahml.ru/ru/agency/analytics/statsis/

[38] Gurtov, V.K., 2009, *Zhil'e Rossii – XXI vek*, Moskva: Statut

[39] Burdiak, 2012

young children, young scientists, and military personnel.[40] At the same time, the government has been continuously calling on commercial banks to work on the reduction of interest rates on mortgage loans. As noted, the trend towards the reduction of interest rates on mortgage loans has been observed since 2009.[41] In addition, we can also underline the measures that the government put in place in the wake of the global financial crisis to provide assistance to borrowers in difficult economic circumstances. The Agency for the Restructuring of Home Mortgage Loans (ARHML) established in 2009 signed nearly eight thousand agreements for restructuring of mortgage debt by the end of 2010.[42] In December 2011, a new popular initiative of writing off debt of failed borrowers became law and came into force in the following March.[43] The government hoped that such an approach would help to increase trust among the public regarding mortgage credits as well as make mortgages more borrower-friendly.

It may be noted, however, that these efforts of policy-makers' primarily lie within the established paradigm of housing finance based on the development of mortgage credit by banks assisted by a government agency. Some housing and banking experts, nevertheless, criticise the lack of attention to alternative models of housing finance that are used around the world. Two such lines of criticism can be singled out.

The first one originates within the community of banking experts who support the 'European' model of housing finance or the idea of the development of a more decentralised secondary mortgage market funded by securities, and specifically covered bonds. These specialists argue that banks in Russia would be able to offer mortgages to the public on more borrower-friendly terms only if they had access to plentiful liquidity on the secondary mortgage market. The development of securitisation in the country would allow the volumes of secondary funding available to Russian banks to increase. However, the 2003 Law on mortgage securities which institutionalised both the MBS and the Covered Bond types insufficiently defines the covered bond form.[44] This prevents the latter instrument being used effectively in practice and thus stands in the way of achieving the policy goal of affordable mortgages for the Russian people. It is argued that Russia's medium-size banks specifically would benefit from the introduction of a clearly defined covered bond instrument.

The work of the advocates of this alternative paradigm of housing finance resulted in the draft law developed in early 2009, at the time when the effects of the financial crisis made the costs of borrowing on international markets particularly high. So far these initiatives have not been adopted in policy.[45] The reasons for that may be multiple. First, due to the complex nature of covered bonds, policy makers may attach the low priority to their adoption, especially during the pre-election period.[46] Alternatively, it is possible to suggest that this financial instrument, because to its decentralised nature, contradicts the logic of the Russian political economy of recent years which tends towards state control of investment and financial flows.[47] Another possible explanation relates to the logic of institutional path dependence according to which the earlier established secondary mortgage market arrangement, i.e. the Agency model, blocks the way to the adoption of an alternative paradigm. Whatever the reason, it may be noted that the government is aware of the problem of insufficient securitisation - according to the data of the AHML in 2010, 3.57% of mortgage loans were funded with the use of mortgage securities.[48] The government aims to significantly increase these volumes,[49] at present using the funds of state development bank 'VEB' which in 2010 initiated a new housing investment programme. During the summer of 2011, VEB started to work on the programme with a number of designated banks.[50]

The second alternative paradigm of housing finance which was put forward by the community of housing experts is the savings model based on the formation of building societies.[51] The supporters of this model insist that since the borrowers in Russia have not yet internalised the culture of mortgage borrowing,[52] moreover, many of them are lacking credit histories or/and have insufficient funds for the mortgage deposit – which often reach 30% of the property price – the approach of building societies would be more beneficial for them. The policy reliance on mortgage lending by banks is considered by this line of argument to be premature in the Russian context, at least for the majority of Russians. By contrast, building societies, according to the advocates of this model, could become the kind of temporary institution which would pave the way to the development of full-fledged mortgage lending by banks in future. The initiative to introduce building societies was discussed by the government in 2006-2007. Policy makers seemed to support the regional approach to the development of this instrument.[53] So far, one region, *Krasnodarsky krai* in the south of Russia, is known to have adopted the building societies model.[54]

Overall, when considering the transformation observed in the sphere of Russian housing finance over the post-Soviet period, it can be concluded that the government has accepted and is working within the policy paradigm based on the idea of a mortgage agency and the development of mortgage credit by banks. Greater reliance on state support in this sphere can also be noted in the recent years. In addition, alternative models of housing finance, often based on the European experience in this area, are present in Russia. Despite their promotion by groups of housing specialists, the impact of these ideas on policy to date remains limited.

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[40] AIZhK, 2011, *Go dovoy Otchet 2011*, pages 17-18

[41] AIZhK, 2011, *Godovoy Otchet 2011*, page 10

[42] Agenstvo po Ipotechnomu Zhilishchnomu Kreditovaniu (AIZhK), 2010, Godovoy Otchet 2010, available at http://www.ahml.ru/common/img/uploaded/files/agency/reporting/annual/god_otchet_2010.pdf page 38

[43] Federal'niy Zakon No. 405 FZ, *Rossiyskaya Gazeta*, December 14 2011, N. 5657 available at http://www.rg.ru/2011/12/14/zalog-dok.html

[44] ECBC, 2010, 2010 ECBC European Covered Bond Fact Book, Chapter on Russia, pp.: 257-275, available at http://ecbc.hypo.org

[45] ECBC, 2011, 2011 ECBC European Covered Bond Fact Book, Chapter on Russia, pp.: 331-345 available at http://ecbc.hypo.org

[45] Zhilishchniy Kodeks Rossiyskoy Federatsii, N.188-FZ, adopted on 29 December 2004. *Sobranie Zakonodatel'stva Rossiyskoy Federatsii*, 2005, no. 1, part I, st. 14

[46] A round of parliamentary-presidential elections took place in Russia during 2011-2012.

[47] Ericson, R. E., 2009, The Russian economy in 2008: testing the 'market economy', *Post-Soviet Affairs*, 25 / 3, pp. 209–231

[48] AIZhK, 2011, *Strategia Razvitiya Gruppy Kompaniy 'AIZhK' and 2011-2020 gody*, available at http://www.ahml.ru/common/img/uploaded/files/agency/strategy_ahml_220811.pdf; On the development of Russian securities market see Lassen, 2012

[49] To 50% by 2015, AIZhK, 2011, *Strategia*, page 10

[50] AIZhK, 2011, Godovoy Otchet 2011, page 19; and Lassen, 2012

[51] Polterovich, V.M., 2007, Elementy Teorii Reform, Moskva: Ekonomika; Polterovich, V.M. and Starkov, O.Yu., 2007, *Formirovanie Ipoteki v Dogonyaushchikh Ekonomikakh: Problema Transplantatsii Institutov*, Moskva: Nauka; Guzikova, L. A., 2008, Ipotechniy rynok Rossii: sostoyanie i problem, Problemy Sovremennoy Ekonomiki, 3(27)

[52] Recent academic research supports this viewpoint. See: Zavisca, 2012

[53] Zasedanie Prezidiuma Gosudarstvennogo Soveta, 2007, *O rabote organov gosudarstvennoy vlasti sub"ektov Rossiyskoy Federatsii po reformirovaniyu zhilishchno-communal'nogo khoziaystva i stroitel'stvu dostupnogo zhil'ya, v tom chisle dlia maloobespechennikh sloyev naseleniya*, held in Kazan' on 19 January 2007, available at http://archive.kremlin.ru/appears/2007/01/19/2300_type63374type63378type82634_116857.shtml

[54] See www.rusipoteka.ru/lenta/market/mehanism_zhiliwnogo_kreditovaniya_nakopitelnuyu_ipoteku/

The sustainability of homeownership and the performance of mortgage market during the economic crisis in the Czech Republic

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1. Introduction

The substantial decreases in housing prices, continuing great volatility of housing prices and the long-term instability of housing markets in some European countries may be due to an accumulation of systemic market risks in the past. One of the main systemic risks cited in the literature is the *(un)sustainability* of owner-occupied housing. If the growing share of homeowners is increasingly made up of low-income households who, without "innovative" risk products and low interest rates, would not have been able to afford to buy their own housing and whose housing is essentially their only asset, then this is a trend that is unsustainable in the long term and may be at the root of the big drops in prices that occur during downturns, the extreme volatility of residential real estate prices in general and the increasing number of mortgage defaults.

As in many other European countries (and especially post-socialist countries), after 1990 the Czech Republic experienced a dramatic increase in the share of owner-occupier housing. According to the results of the Population and Housing Census, the homeownership rate increased from 37.7% of the housing stock in 1991 to 46.8% in 2001 and 64.5% in 2011. The growing share of owner-occupier housing is consistent with the preferences of the majority of the Czech society. On the other hand, such a dramatic change might significantly lead to systemic risks and could produce greater housing price volatility, a growing number of mortgage defaults and the destabilisation of the financial sector during financial and economic crises.

However, the impact of the latest global economic crisis on the housing and mortgage markets in the Czech Republic has, at least to date, been relatively smaller in an international comparison. Unlike many other countries (e.g. Ireland, Spain, Greece, USA, Denmark, but also post-socialist states such as Hungary, Estonia, Latvia, Romania and Bulgaria), there has been no dramatic fall in housing prices in the Czech Republic and the number of mortgage defaults (despite an increase) has remained at sustainable level. The purpose of this article is to describe the main factors that helped the mortgage and housing markets in the Czech Republic to survive during the global economic crisis in a relatively healthy state despite the significant rise in the homeownership rate and mortgage debt in the pre-crisis period.

2. Brief historical overview

Despite the necessary legislation having been approved in 1995, due to specific factors relating to the profound transformation of the Czech economy after 1990 Czech mortgage finance took off de facto in 2000. In 2004 mortgage lending criteria were eased, thereby accelerating market growth, which peaked in 2007. In the years 2006 and 2007, mortgage providers started to offer new products, such as mortgage loans with high LTV, equity withdrawal loans or loans with no income declaration. Increasing competition led lenders to substantially reduce their margins. Increasing housing demand, intensified by the expansive policies of mortgage lenders, had an effect on house prices, which - after stagnating from 2004 to 2006 - then soared in 2007 and 2008. In 2007, for example, prices of apartments increased by 29% in nominal terms on a year-on-year basis. However, such unprecedented house price growth only last two years.

After Lehman Brothers filed for bankruptcy protection in the US on September 15, 2008, the ensuing uncertainty in the global financial markets and the simultaneous credit crunch had an immediate effect on financial markets in Central and Eastern Europe. In the Czech Republic, in late September and October 2008 there was a substantial drop in activity in the interbank money market, an increase in the volatility of exchange rates, with continued depreciation of the CZK due to reduced investor confidence in the whole region until Q2 2009, and a slump in the stock market. The Czech National Bank reacted by lowering its base rate. For example, the rate for advances on collateral decreased cumulatively from August 2008 to December 2009 by 2.75 percentage points. However, these steps had only a limited effect on interbank money market rates and, consequently, on mortgage rates. The monetary policy mechanism linking national bank rates to commercial rates was disrupted and risk premiums increased substantially.

On the contrary, banks tightened their lending criteria. In practice this meant that loan financing of new housing projects de facto stopped; a ceiling to loan-to-value ratios was introduced and a minimum income requirement was set for all new mortgage applications. Due to liquidity constraints there were concerns of a possible rush for Czech banks. This spurred the Czech government to increase state guarantees for deposits from EUR 25,000 to 50,000 in October 2008. In February 2010 the government doubled this state guarantee for deposits up to EUR 100,000.

In 2009 it became clear that the financial sector was in a healthy state, and despite the credit crunch Czech banks remained financially stable and profitable. No Czech bank was taken over or went bankrupt during the 2008 to 2011 period. With regard to mortgage lending, the default rate (i.e. the ratio of mortgage loans with payments that are overdue by more than 90 days to total mortgage loans) increased from 1.5% in December 2008 to 2.4% in December 2009, 3.1% in December 2010 and 3.1% in December 2011. Tightened lending criteria, decreasing household demand, a general economic recession and growing uncertainty in the labour market resulted in a drop in the level of housing market transactions (by 12% between 2008 and 2009, 6% between 2009 and 2010 and 6% between 2010 and 2011) and house prices: for apartments by 13% between 2008 and 2011, for detached homes by 5.9% and for building plots by 0.4% in nominal value (according to the hedonic price index based on Ceska Sporitelna Erste Group price data). However, the scope of the decline in housing prices and the amount of increasing mortgage defaults were lower than in most other post-socialist states.

Consequently, the Czech government's response to the economic crisis in the financial sector, beyond the above-mentioned higher state guarantees for deposits, was limited. There were no mortgage rescue schemes, no special income supports for highly leveraged borrowers, no new regulations for the banking sector, nor even a moratorium on repossessions. The only government measures implemented were the postponement of rent deregulation in some of thelargest Czech cities and the introduction of state guarantees for loans to developers who built rental housing (although rental housing developments are rather low). Several employment policy measures, such as tax incentives for employers with low-wage employees, and measures designed to cut the public budget deficit were also introduced, but they did not directly or significantly influence the situation in the housing market.

3. Why so easy?

Although often not recognized in the housing literature, there are substantial differences among post-socialist countries in terms of their housing systems. After 1990, several post-socialist countries applied restitution to the housing stock that had been expropriated by the communists, and thus returned it to the original owners or their descendants (e.g., Czech Republic, Estonia, Slovenia and Albania). Other former socialist states did not implement any restitution (e.g., Russia and Bulgaria) or they preferred to give financial compensation to former owners rather than giving back their property "in kind" (e.g., Hungary). The majority of transition countries passed right-to-buy legislation, and consequently, the sitting tenants of public housing were given the right to buy their flats under the very favourable terms set by the central government. However, in Poland and the Czech Republic, no right-to-buy legislation was introduced; and it was up to municipalities to decide whether to privatise the public housing stock and under which conditions. The change in tenure structure was therefore not universal. Some countries, such as Hungary, quickly became "super-homeownership" states. In other post-socialist states, such as the Czech Republic, due to the restitution of property and the absence of a right-to-buy policy the increase in the homeownership rate was much slower and, when compared to other countries, a more balanced tenure structure was established where both private and public rental housing stock represented a still not insignificant share of the total housing stock.

There are also differences between the market-based housing finance systems across the various post-socialist states.[55] There were differences in the solutions used to tackle the "tilt" problem that arose in the first period of transition as a result of high inflation rates.[56] The Czech Republic solved it mainly through the use of interest subsidies; Hungary used deferred payment mortgages along with interest subsidies; Poland introduced and extended indexed mortgage loans (dual-index mortgage); and in most other countries new loans were increasingly issued in foreign currencies (e.g., in Estonia, Latvia or Hungary after 2004). There were also significant differences in how housing savings schemes were implemented. The Czech and Slovak Republics introduced housing savings schemes similar to the German Bausparkassen in 1993. Hungary followed in 1997, Croatia in 1998, Romania in 2003 and Bulgaria in 2004. However, in the Czech Republic, unlike Hungary, housing savings schemes have become very popular as a general savings vehicle.

These institutional differences may help explain the different impact of the global economic crisis on mortgage and housing markets across post-socialist States, and they may provide a partial answer to the question why Czech housing and mortgage markets proved so resilient during the last global economic crisis.

"Sustainable" homeownership

As explained earlier, one of the main systemic market risks is called "unsustainable homeownership". In this perspective, the sustainaibily is determined by: 1) the income structure of homeowners with mortgage debt, i.e., especially the share of low-income households among borrowers; and 2) the portfolio of mortgage products, i.e., especially the share of "innovative" mortgage products that represent a high risk for lenders. To assess the trend in the share of Czech low-income households repaying mortgage loans acquired to buy a house or a flat, data was drawn from the EU-SILC survey conducted in 2005, 2007, 2008 and 2009.[57] To assess the mortgage market from the perspective of the boom in mortgages offered by banks and the expansion of their portfolios to include "innovative" products, we have used the results of a questionnaire survey that we conducted among mortgage lenders in 2010.

Although the questionnaire was completed by just six mortgage lenders, it managed to cover the majority of the market. Evidence is provided by a comparison between the volume of mortgage loans provided to individuals for house purchase in 2005–2009 by lenders and the total volume of mortgage credits according to statistics provided by the Ministry for Regional Development. Every year in the period between 2005 and 2009 the volume of mortgage loans granted to individuals for house purchase by lenders participating in the survey exceeded 90% of the total volume of mortgage loans.

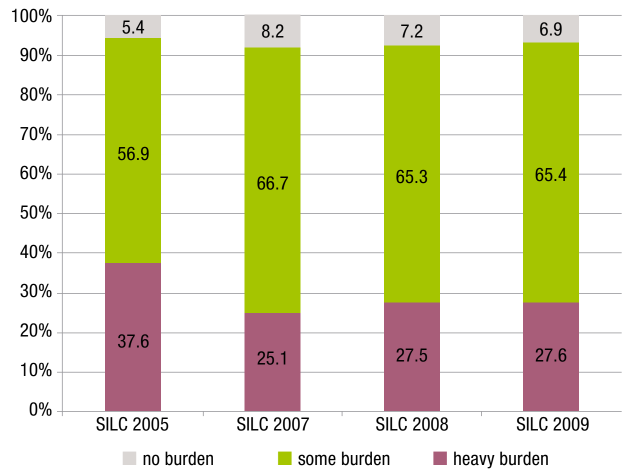
To assess borrowers, for each household examined in the EU-SILC survey we calculated the total net equalied income (based on OECD standards), and then we divided all the households (regardless of tenure) according to their income into ten equally large groups (deciles), so that the 10% of households with the lowest net incomes were in the 1st decile and the 10% of households with the highest net incomes were in the 10th decile. We then observed the change in the share of households in individual deciles each year, but only for the group of owner-occupied households who took out a mortgage loan for house purchase. The results are presented in Figure 1.

Let us define low-income households as those households that according to their equalised income fall into the 1st to 3rd deciles. Figure 1 shows that there

Figure 1 ▶ Changes in the share of low-income households among owner-occupied households with mortgage loans

Source: data sets from the SILC Survey 2005, SILC 2007, SILC 2008, SILC 2009; author's calculations.

Figure 2 ▶ Shares of owner-occupied households with mortgage loans for which expenditures on housing are at least "some" burden



Question: If you consider your overall expenditures on housing and also your mortgage interest payments (not however the mortgage principal), would you say that these expenditures for your household represent: a heavy burden, some burden, no burden.

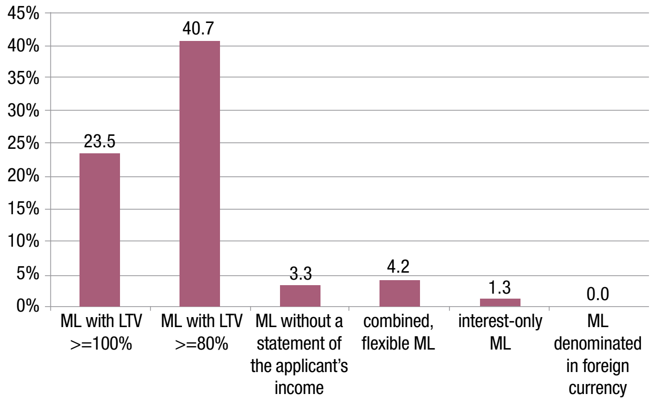
Source: data sets from the SILC survey in 2005, SILC 2007, SILC 2008, SILC 2009.

55 Hegedüs, J., and Struyk, R. 2005. "Divergences and Convergences in Restructuring Housing Finance in Transition Countries", pp. 3-41 In: Hegedüs, J. and Struyk, R.J. (eds.) *Housing Finance: New and Old Models in Central Europe, Russia and Kazakhstan.* Budapest: LGI.

56 With high inflation lenders charge high nominal interest rates. This creates an affordability barrier to annuity mortgages where initial payments are high. However, as time passes loan repayments decline in real value through inflation resulting in repayments constituting a decreasing share of a borrower's income. This effect is called a "tilt" problem. Thus, the high real values of payments at the beginning of a loan term prevent many households from qualifying for mortgages.

57 The EU-SILC survey is a representative sample survey (households and individuals were selected through a several-stage random sampling process). Data for households were used. The data sample for 2005 includes information on 4,351 households, 2007 has information on 9,675 households, 2008 has information on 11,294 households, and 2009 has information on 9,911 households (CZSO 2009).

Figure 3 ▶ Share of mortgage loans (ML) by their specific criteria out of the total volume of mortgage loans extended to physical persons for housing between 2005 and 2009



Note: The figures were calculated as weighted averages, where the weights were the volume of ML provided to physical persons for housing in individual years.

Source: the survey "Mortgage Credit in the CR in 2010", author's calculations.

was no increase over time in the share of low-income households among Czech homeowners with mortgages during the pre-crisis mortgage and housing market boom in the Czech Republic. In 2005 19.6% of homeowners with mortgages were low-income households, in 2007 16.3%, in 2008 15.3% and in 2009 13.8%.

If systemic risks stemming from an increase in the share of households that are unable to repay their mortgage loans existed, one sign would be that, at least in connection with the financial crisis (i.e. since approximately Q3 2008), there would be a sharp increase in the share of households with mortgage loans who subjectively feel that their expenditures on housing represent a "heavy" or at least "cumbersome" burden. Therefore, we also examined what share of households with mortgage loans indicated that their expenditures on housing represented a "heavy" or "cumbersome" burden for them. However, as indicated in Figure 2, even here there is no clear sign of any pronounced or at least continuous increase in the share of owner-occupied households with mortgage loans who consider their expenditures on housing as a "heavy" burden.

The second question was whether after 2005 there was an increase in the share of "innovative", risky mortgage products in the overall credit portfolio of mortgage lenders. Figure 3 shows results stemming from our own survey among Czech mortgage lenders conducted in 2010: the share of loans with an LTV equal to or higher than 100%, the share of loans with an LTV higher than or equal to 80%, the share of loans granted without a statement of the applicant's income, the share of loans combined with other financial products, (such as life insurance) and flexible mortgage loans, the share of "interest-only" loans, and the share of mortgage loans denominated in foreign currency out of the total volume of mortgage loans extended by lenders that took part in our survey for the whole period between 2005 and 2009.

It is evident from Figure 3 that the volume of mortgage loans with an LTV higher or equal to 100% (or 80% respectively) on average makes up a relatively significant share of the total volume of loans provided in the period. However, the share of mortgage loans provided without requiring a statement of income from the applicant, the share of combined and flexible mortgage loans and the share of "interest-only" mortgage loans all account for relatively marginal shares of the entire loan portfolio. Moreover, the share of mortgage loans denominated in foreign currency, which was the main source of the problems that arose in most post-socialist countries during the crisis (e.g. Hungary), was completely insignificant.

Although it is very difficult to assess these observations without comparing them to the situation in other countries, given that mortgage loans with a high LTV first appeared in the Czech Republic just a few years before the onset of the global economic crisis, the pre-crisis situation can be assessed as sustainable. An important finding for this conclusion is that mortgage loans provided without requiring a statement of income from the applicant and mortgage loans denominated in foreign currency both represented just marginal parts of the credit portfolios of mortgage lenders in the Czech Republic.

High household savings rate and low mortgage rates

Mortgage lenders in the Czech Republic are represented by commercial banks, specialised mortgage banks and Bausparkasse. Loans are financed especially by deposits and mortgage bond issuance – bonds can be issued both by commercial and specialised mortgage banks. The Czech Republic traditionally has a very high household savings ratio. Czech mortgage lenders were therefore not dependent on external financing and could accumulate resources with relatively low deposit rates even when such rates were negative in real terms. The savings behaviour of Czech households has been supported also by the *Bausparkasse* savings scheme which became very popular. High accumulated savings enabled *Bausparkasse* to offer classic mortgage loans with long maturity terms. The sources from deposits, mortgage bonds and *Bausparkasse* savings were sufficient to meet the demand for mortgage funding. Neither securitisation, nor external capital for mortgage funding was needed in the pre-crisis period.

Due to the low level and volatility of inflation, the high savings ratio and a tolerable level of public budget debt, local currency denominated loans experienced low nominal interest rates, and, consequently, foreign currency-denominated loans remained a marginal part of mortgage credit portfolio. Table 1 compares the interest rates charged on mortgage loans in the Czech Republic and Hungary. The Czech and Hungarian cases are particularly useful as they have similar starting points given their historical legacy and important differences in the ensuing transition process from the communist regimes.

The data in Table 1 show that in the years 2005 to 2008 the average nominal rate on local currency loans was around 10% per year in Hungary and around 4 to 5% per year in the Czech Republic. The disparity would be even deeper for loans with longer fixed periods. This is because in Hungary the nominal interest rates on loans in the local currency for a five-year to a ten-year fixed period ranged from 13% to 16% per year, while in the Czech Republic similar loans had interest rates of around 5% per year, thereby yielding a difference of at least 8 percentage points between the two countries. The differences in the inflation levels are the main reason; however, there are also signs that the margins of mortgage lenders in Hungary were substantially higher than in the Czech Republic.[58]

A more balanced housing tenure structure

When comparing the Czech Republic and Hungary, another important factor should be taken into account: for Hungarian households, homeownership was the only viable option for obtaining permanent housing. There is evidence that while in the Czech Republic the housing tenure structure remained more balanced, with relatively high shares of both public and private rental housing, in Hungary public housing was marginalised and private rental housing formed a small and high-priced sector that is barely taxed as it is for the most part encompassed within the informal economy.

While in the Czech Republic the yields (i.e. rent-to-price ratio) from residential rental investment dropped substantially and quickly, in Hungary they remained at considerably high levels, and market rents changed in line with house prices. The housing subsidies in the Czech Republic, albeit also biased towards owner-occupied housing, included more support for public rental housing than was the case in Hungary. It seems that the Hungarian state housing policy's preferential support for homeownership distorted tenure choice and dramatically increased

[58] Hegedüs, J., M. Lux, P. Sunega 2011. Decline and depression: the impact of the global economic crisis on housing markets in two post-socialist states. *Journal of Housing and the Built Environment* 26 (3): 315-333.

the demand for owner-occupied housing. As a result, other housing tenures were not perceived as viable alternatives to owner-occupied housing, even for households with low or unstable incomes. By contrast, in the Czech Republic a more balanced tenure structure helped to offer relatively stable and affordable rental housing (with generous state housing benefits) to households with low or unstable incomes.

4. Conclusions

After 1992, the Czech Republic experienced a significant increase in the number of households living owner-occupied housings. The privatisation of municipal rental housing, a highly-regulated rental market (coupled with high market rents), housing policy measures that boosted owner-occupancy, and the rapid expansion of mortgage financing, especially after 2005, all contributed to the increase in the share of homeowners. This growth was also a reflection of preferences of Czech households.

The results described above, however, did not confirm the hypothesis about an increase in the share of low-income households among homeowners with mortgage loans between 2005 and 2009. Moreover, the riskiest mortgage products, such as those granting mortgage loans without asking for a statement of income from the applicant, combined and flexible mortgage loans, and "interest-only" mortgage loans, have continued to account for just a marginal share of the total volume of mortgage loans, and the share of mortgage loans denominated in foreign currencies was insignificant. The absence of foreign currency-denominated loans in the credit portfolio was determined by the low inflation rate, low inflation volatility and the comparatively high household savings ratio, despite low deposit rates; consequently, low mortgage rates on CZK-denominated loans.

In conclusion, it can be said that it is not so much due to the cautious practice from banks in terms of the launch "innovative" products and the inclusion of lower-income households among their clients. An important reason was the relatively short period of boom in the Czech mortgage market before the onset of the economic crisis. It can also be found that a balanced housing system, or specifically a balanced housing policy that ensures an adequate number of rental flats , is the best insurance against the turbulence caused by future economic recessions and against the volatility of real estate prices in general. Even this factor, which is "exogenous" from the banks' perspective, helped preventing the Czech housing and mortgage markets from collapsing as a result of the global economic crisis.

Table 1 ▶ The interest rate (IR) on housing loans in local and foreign currency, 2000 – 2009

Types of Interest Rate (IR)	2002	2007	2009	2011	2002	2007	2009	2011	2009	2011
Average IR of loans for dwelling purchase, local currency (%, nominal)										
Czech Republic	7.01	7.49	6.32	5.11	5.24	4.51	4.48	4.80	5.48	5.51
Hungary	18.41	16.42	14.19	12.24	12.31	10.07	9.54	9.96	10.39	11.75
Average IR of loans for dwelling purchase, local currency (%, real)										
Czech Republic	3.11	2.79	4.52	5.01	2.42	2.65	1.95	1.97	-0.89	4.46
Hungary	8.64	7.23	8.91	7.58	5.56	6.50	5.62	1.98	4.29	7.55
IR of loans for dwelling purchase over 1 and up to 5 years fix, local currency (%, nominal)										
Czech Republic	n/a.	n/a.	n/a	n/a	5.13	4.29	4.55	4.78	5.56	5.65
Hungary	n/a	n/a	n/a	12.21	11.62	9.37	9.09	9.30	9.73	11.43
IR of loans for dwelling purchase over 1 and up to 5 years fix, local currency (%, real)										
Czech Republic	n/a	n/a	n/a	n/a	2.31	2.42	2.02	1.95	-0.80	4.60
Hungary	n/a	n/a	n/a	7.54	4.87	5.79	5.17	1.31	3.63	7.23
IR of loans for dwelling purchase over 5 and up to 10 years fix, local currency (%, nominal)										
Czech Republic	n/a	n/a	n/a	n/a	5.31	4.85	4.99	4.94	5.27	4.93
Hungary	n/a	n/a	n/a	12.51	13.41	13.39	13.67	14.36	16.25	17.29
IR of loans for dwelling purchase over 5 and up to 10 years fix, local currency (%, real)										
Czech Republic	n/a	n/a	n/a	n/a	2.49	2.98	2.45	2.11	-1.09	3.88
Hungary	n/a	n/a	n/a	7.84	6.66	9.82	9.75	6.38	10.15	13.09
IR of loans for dwelling purchase, foreign currency (%, nominal)										
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary (CHF, mortgage loans)	n/a	n/a	n/a	n/a.	n/a	3.67	3.75	4.36	5.29	5.68
Hungary (EUR, housing loans)	n/a.	n/a	n/a	n/a	n/a	4.31	4.86	5.76	6.44	7.17

Note: Real IR is nominal IR minus the year-to-year change in the Consumer Price Index (CPI). Unavailable data are indicated by n/a..

Source: Hegedüs, J., M. Lux, P. Sunega 2011. Decline and depression: the impact of the global economic crisis on housing markets in two post-socialist states. Journal of Housing and the Built Environment 26 (3): 315-333. Czech Republic – Mortgage Market 2005 survey conducted by the author (data for 2000-2002), Hypoindex.cz (data for 2003), Czech National Bank (data for 2004-2009), author's calculations. Hungary – National Bank of Hungary, author's calculations.

Housing Debt Crisis in Light of a Major Banking Crisis in Iceland: Restructuring of Household Debt in Iceland – an example for other indebted countries?

By Magnus Arni Skulason, Reykjavik Economics EHF

Iceland, a nation of just 320,000 inhabitants experienced one of the greatest banking crashes in any country's history - when all of its three major international banks collapsed in a week in October 2008. This caused a balance of payment crisis, currency crisis and housing debt crisis – all at once.

Why did this happen and what effect did it have on housing finance and restructuring of household debt?

The Icelandic Saga

Iceland progressed and jumped from an underdeveloped society to one of the richest countries in the world after the Second World War. Iceland's vast resources, highly literate population, and geographical location played a part in that success. Iceland was a high-income country by any comparison, and even in 2011, the Icelandic real GDP was EUR10.08 billion and the real GDP per capita reached EUR 31,600.

Even though Iceland experienced good standards of living at the break of the new millennium, it wanted more. It wanted to become a global financial hub. This desire was made possible by the massive supply of easy money at the start of the millennium. In an international context of low interest rates, excessive international loan capital, and rapid debt securitization that separated credit origination from eventual credit risk, money seemed to be created out of thin air. Icelandic bankers rode the wave from 2003 until the banks collapsed in the autumn of 2008.

The Banking Saga

The three major Icelandic banks were privatized in 2002 and 2003. At that point, their combined assets were equal to 100% of GDP, but in the age of easy money, banks quickly grew, so that by 2008, their assets had increased to a staggering amount of 1,000% of GDP[59].

The credit crunch hit Iceland and its banking sector in 2008. Lehman Brothers, an American investment bank, collapsed in September 2008 and the Icelandic banking sector became rapidly insolvent and went into receivership. The set of bankruptcies that occurred was so large in asset size that in an economy such as the USA, whose real GDP was one thousand times larger, the three international Icelandic banks – Kaupthing, Glitnir and Landsbanki - would have made it into the top ten list of bankruptcies in the USA[60].

The immense effect on the Icelandic economy gave the Government of Iceland no other option but to assume the responsibility for the local assets and liabilities of the banks by establishing new banks. In addition, Iceland had no other option but to prioritize domestic and international deposits resulting in a hit for the bondholders of the banks. Other countries took an alternative route at the time (e.g. Ireland securitised the Irish banks' creditors).

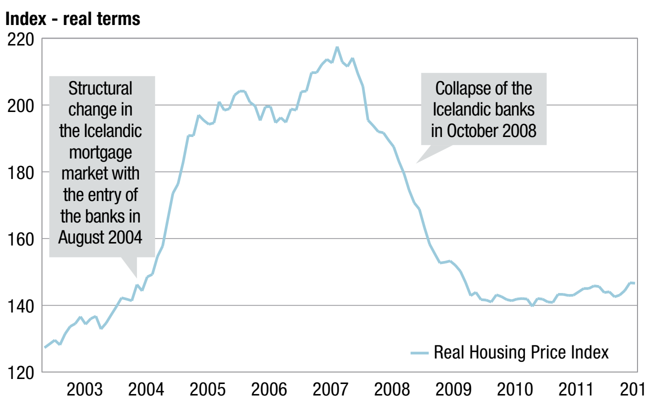
During this process, the creditors of the three main banks lost ISK 7,500 billion[61] or the equivalent of EUR 45 billion – a charge mainly due to write-offs for holding companies that had shares in Icelandic banks and companies and foreign companies. The assets were distributed around the world and included some high street retailers in the UK.

The Housing Bubble Saga

Housing prices in the capital region of Reykjavik, which is the most densely populated area and has over 62% of the inhabitants, grew rapidly from August 2004 to October 2007 (i.e. by 50.7% in real terms or, in other words, by 78.6% in nominal terms[62]; See Figure 1). How did this happen?

There are several reasons for the soaring prices that occurred nearly simultaneously a year after the government of Iceland had announced in its White Book that it was going to allow the state owned Housing Financing Fund (HFF) to raise its loan-to-value (LTV) limit gradually, from the general 70% to 90% LTV, over time, i.e. of the official fire insurance value of properties (tax value minus the land value). At the time, the maximum mortgage loan from the HFF amounted to just over €100,000 at today's prices. In addition, the HFF changed its mortgage backed securities on July 1, 2004, which made it possible for the HFF to lower real interest rates on its consumer price index (CPI) linked mortgages annuities to 4.8% per annum.

Figure 1 Real House Prices in the Great Reykjavik Area - 1994=100



Source: Registers Iceland & Reykjavik Economics

[59] See http://www.imf.org/external/pubs/ft/survey/so/2008/INT111908A.htm

[60] See Elliot Wilson (March 2010) "The failed state of Iceland" *Euromoney*

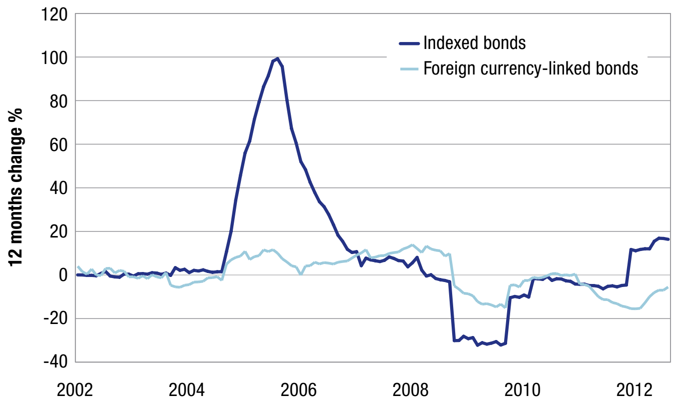
[61] See BIS data from July 2011 - http://www.visir.is/tap-krofuhafa-7.500-milljardar-islenskra-krona/article/2011711199879

[62] According to the housing price index of Registers Iceland.

Timeline ▶ From a controlled economy to free market economy and back again

- 1994 - Iceland joins the European Economic Area in an agreement between the European Free Trade Association and the European Union.
  - Four Freedoms - Goods, Capital, Services & People.
  - Gave Icelandic companies and financial institutions access to European Capital Markets.
- 1998 - First step in privatization of the state-owned banks was when they were listed on the Icelandic Stock Exchange.
- 2001 - Age of Easy Money Starts as a consequence of the Internet bubble and 9/11/2001.
- 2002 - Full privatization of the two government owned banks.
  - Landsbanki (19. October 2002). Samson buys 45.8% of the bank's shares for ISK 12.3 billion.
  - Bunadarbankinn (17. November 2002) (Agricultural Bank of Iceland). The so-called S-group buys 45.8% of the bank's shares for ISK 11.9 billion.
  - Full privatization completed in 2003.
- 2003 - Spring: The Government of Iceland announces 90% loan-to-value (LTV) limit and an increase in the maximum mortgage amount over a period of few years. The highest mortgages available were ISK 9.7 million at that point in time and generally 70% LTV.
  - 2004 - July 1: Change in the funding of the governmental owned Housing Financing Fund (HFF). Real interest rates were lowered from 5.1% to 4.8% on new mortgages. Interest rate exposure of the public comes to an end, due to the introduction of cash-only loans instead of transferable bonds.
  - 2004 - August 23: The newly privatized banks enter the mortgage market full force with higher maximum loan of ISK 25 million and 80% LTV. Real interest rates fell to 4.4%. It was foreseen that the public would refinance more expensive loans, e.g. lucrative overdraft loans of the banks, with new and cheaper mortgages.
  - 2004 - November 8: Islandsbanki offers 100% LTV. General LTV is 90%.
  - 2004 - November 22: Real interest rates lowered generally to 4.15%.
  - The market is additionally fuelled at the same time with generous interest rate benefits from the government to homeowners.
  - This was in effect a deregulation of the housing mortgage markets, which resulted in higher house prices in the Reykjavik Capital Region, driven by strong economic growth and demographic change because of immigration.
- 2007 – Peak in the housing market.
  - 2008 – October: Collapse of the Icelandic banking system.
  - September 29, 2008, Glitnir Bank collapses and is put into a receivership by the Financial Supervisory Authority.
  - October 8, 2008, the Financial Supervisory Authority puts Landsbankinn into a receivership.
  - October 8, 2008, Great Britain evokes anti-terrorist legislation against Iceland, i.e. freezes the assets of Landsbanki and the Icelandic Authorities and it's institutions.
  - October 9, 2008, the Financial Supervisory Authority puts Kaupthing Bank into a receivership.
  - October 24, 2008, IMF and Iceland outline $2.1 billion loan plan .
  - November 28, 2008, draconian capital controls put in place.

Figure 2 ▶ DMB Mortgage Lending to Households - 12 months change



Source: Central Bank of Iceland

These changes called for a competitive reaction from the newly privatised banks that feared a reduced market share in the household lending market, e.g. lucrative overdrafts that were used as bridge financing in real estate transactions. Before these structural changes came about, the banks were nearly non-existent in the mortgage market. On August 23, 2004, the banks entered the mortgage market in full force and offered CPI-linked mortgages with a real interest rate of 4.4% and an LTV ratio of 80%, with a maximum mortgage amount of EUR 266,000 at today's prices (i.e. a substantially higher amount than the HFF was offering at the time). The price bidding continued and real interest got as low as 4.15% in late November 2004 while the LTV ratio was generally 90%. However, one bank offered generous mortgages, with an LTV ratio of 100%.

The International Monetary Fund (IMF) welcomed this change in the mortgage market in a statement on October 25, 2004: "The entry of banks into the mortgage market is a welcomed development as it allows banks to strengthen their balance sheets by increasing the proportion of mortgage loans".

However, this welcome did not come without a warning: "The financial supervisor, however, will need to closely monitor the evolution of banks' balance sheets, as they continue their expansion into the mortgage market to ensure that it does not result in duration mismatches, lead to additional foreign currency risk exposure, or undermine profitability. It is important that policymakers recognise the positive aspects of a reduced role for the Housing Financing Fund in the mortgage market and focus future reforms to the HFF on enhancing its ability to fulfil social objectives rather than increasing its ability to compete with banks[63]".

Increased loan supply, lower real interest, increased maturity of mortgages and generous interest rate subsidies fuelled the housing market, and enabled homeowners to buy more expensive properties with less equity than was required before these structural changes. As said before, housing prices increased by 78.6% in nominal terms and 50.7% in real terms from August 2004 to October 2007, but, from 2006, after a so-called mini crisis in Iceland, the banks started to offer FX-linked mortgages at interest rates that were mainly a basket of low yielding currencies, like the Japanese yen and the Swiss franc.

This caused huge increases in household debt levels as clearly seen on the volume change of new mortgages issued by the banks in figure 2. Mortgage debt increased from 84.1% of GDP in Q3 2004 to a staggering 106.5% of GDP at the height of the housing boom (figure 3). In the meantime, general household debt (inclusive of mortgages) went from 89,1% of GDP to 117.3% of GDP during the same period. The story did not end there and debt levels went even higher in the wake of the Icelandic banking collapse.

[63] Iceland—2004 Staff Visit Concluding Statement. October 25, 2004 http://www.imf.org/external/np/ms/2004/102504.htm

Dark clouds gathers over the booming Icelandic housing market

In October 2007, housing prices reached their maximum level and the tide then turned. As the banks had liquidity problems, Icelandic real interest rates on mortgages had increased in 2006 (Figure 4). Instead of coping with that problem, the banks re-stimulated the market with FX-linked mortgages in low-yielding currency baskets of Swiss francs (CHF) and Japanese yen (JPY) in 2006 (These loans were ruled as illegal mortgage products in 2010). Due to the low nominal interest rates they were offering, these products became very popular. This popularity fuelled the market more than ever, in spite of the high foreign exchange risk at the time (the value of the local currency, the krona, was very high at this moment).

The market finally reached its peak in October 2007, but by that time, the volume of traded properties was nearly in free fall. Prices started to decrease as soon as the krona started to depreciate in the beginning of 2008. Inflation surged due to higher prices of imported goods, and the principals of the CPI-linked mortgages soared when the inflation component was added to the mortgages' principals. Even worse were the developments of the principals of the FX-linked loans – they skyrocketed, due to the depreciation of the krona. The situation was difficult at that time, but the clouds were still gathering over Iceland. Prosperity was over and the shock came in the first week of October when Prime Minister Geir Haarde appeared live on television and finished his speech with the words: "God bless Iceland". The attitude of "happy go lucky" was crushed in a reality of falling asset prices and soaring debt. Nearly over night, many households had lost their savings in the stock market, their equity in their homes and some even lost their jobs. This resulted in a nearly unbearable situation for a nation that was used to prosperity and secure livelihood.

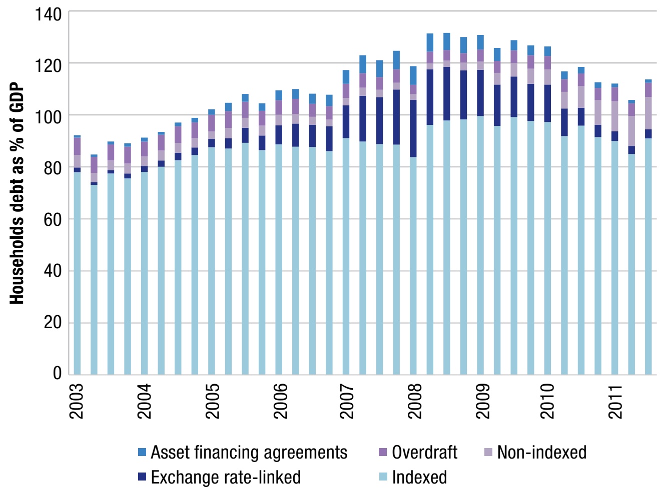
The restructuring period

Major demonstrations in front of the Parliament building were nearly continuous from the autumn of 2008 and resulted in a change of government in February 2009. The new social democratic led government promised to protect households with a shield wall (skjaldborg). People were angry about the collapse of the economy, loss of income and soaring mortgage debt. Inflation of over 18% in 2008 meant that the principal of CPI-linked mortgages had increased by nearly the same amount due to the fact that Icelandic CPI-linked annuity mortgages are back-loading instruments. The FX-linked loans principles doubled due to over 50% depreciation of the ISK against CHF and JPY in one year, i.e. from the beginning to the end of the year 2008. People that had recently bought their first or second home were de facto bankrupt. Equity had vanished and the majority of households was underwater and had in addition seen a massive decrease in housing prices.

At the time of the crisis, in October 2008, the Financial Supervisory Authorities of Iceland established new banks and transferred assets at a fair value from the old banks. Among those assets were mortgages transferred at a discount. Due to this fact, politicians and grassroots organisations started discussing routes for the restructuring of mortgage debt. One idea was a flat haircut of 20% of the value of the principal, others wanted individual solutions, since some of those that would benefit from the 20% haircut would have limited mortgage debt, like the baby boomer generation and, in addition, those that had been reckless in their personal finance.

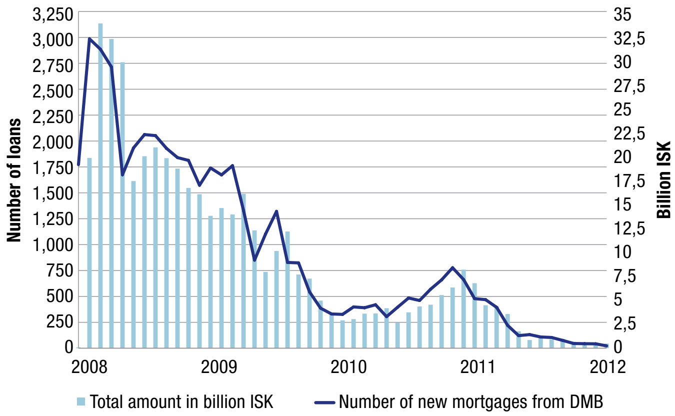
The government and the banks allowed mortgage holders to freeze payments and, in some cases, to apply for alternative solutions at the new office of the Debtors' Ombudsman. The government also put through new bankruptcy legislation that made it possible for people to get out of bankruptcy in two years instead of up to 20 years which was the case beforehand, i.e. in two years time the claims would be completed, unless the creditor would ask for a district court decision to extend the maintenance of the claim. This gave debtors better negotiation powers against creditors. It is worth noting that mortgage debt in Iceland is a recourse debt, i.e. the creditor can claim other assets than the underlying collateral, and therefore it can be impossible to get out of debt if the old bankruptcy legislation would have applied.

Figure 3 Household Debt as % of GDP - Quarters



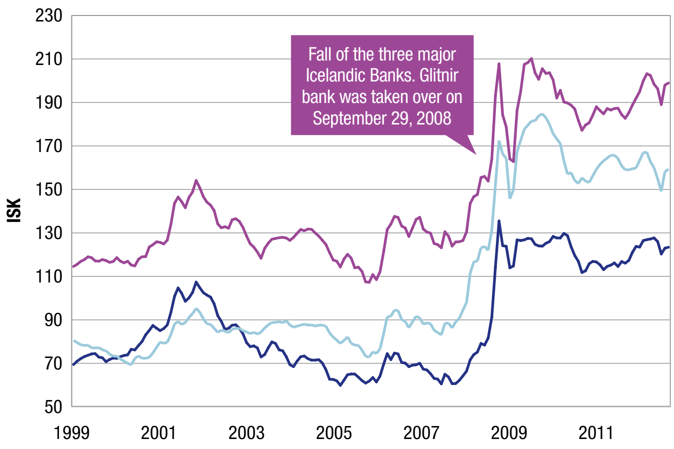
Source: Central Bank of Iceland

Figure 4 Number & Amount of Mortgage Lending from the Icelandic Banks DMBs



Source: Central Bank of Iceland

Figure 5 USD, GBP and EUR Exhange Rate Against the Icelandic krona upto date (Monthly averages). The offshore ISK/EUR is trading around 250



Source: Central Bank of Iceland

The political debate on restructuring of household debt remained at the forefront of the agenda until people with FX-linked mortgages got their redemption from the Supreme Court of Iceland, when the court ruled in favour of a mortgagor in June 2010. The verdict stated that FX-linked loans which were paid out, and denominated in ISK in the mortgage agreement were illegal, i.e. it was illegal to connect a loan paid out in ISK to an index that was based on the fluctuation of currencies in the international markets. The loans that had soared were cut down to the original principal plus any accrued interests. In some instances, the principals received a haircut of 40-50%. The Supreme Court was not clear on which interest rates should be used, i.e. for example a basket of JPY & CHF interest rates or the lowest nominal interest rates of the Central Bank of Iceland. The interest rates are still disputed, but the interest rate difference between Iceland and other countries is substantial. This issue will be resolved in court in 2013.

The first solution for the CPI-linked mortgages was to establish another index that had the purpose to reduce the debt burden temporarily, by taking into account the hit that people had experienced in their real disposable income. One can say that the CPI-linked mortgages became dual index mortgages that reflected changes in consumer prices and wages. This was obviously not enough, as most homes were deeply under water. Homeowners in difficulties could apply for freezing of mortgage payments or pay a minimum installment every month. This gave homeowners in difficulties breathing space to prevent foreclosure and to find other sources of income, i.e. if one had lost part of the household's income or was without a job. This gave homeowners protection from creditors and in some instances it enabled people to find alternative solutions to their problems. Unfortunately, as freezing of payments was not enough, more drastic measures were needed.

On December 3, 2010 the Government, the Icelandic Financial Services Association, the Icelandic Pension Funds Association, the Housing Financing Fund and one estate of the fallen banks – Dromi, announced via a declaration that the parties involved were willing to restructure mortgage debts of overleveraged households. An agreement was later signed on January 15, 2011. The agreement stated the following:

- Households with mortgage debt exceeding 110% of LTV would be given the option to restructure their mortgage debt, i.e. mortgage creditors would write off all mortgage debt that exceeded 110% of the value of the home.

The conditions for restructuring were the following:

- The applicants for restructuring needed to have acquired the real estate in the year 2009 or earlier.
- This restructuring route applied mainly to CPI-linked mortgages, since the FX-linked mortgages were usually below the LTV-ratio following the ruling of the Supreme Court.
- The mortgagor needed to bring forward a list of all assets and the restructuring applied only to the mortgagor's residence.
- In addition, the mortgagor needed to fill in an application and reveal all their income according to tax returns.

The objective of the agreement was to ensure that the debt burden of the mortgage would not exceed 20% of the household's income, and provide an option to ask for a further write-off of the mortgage debt if this was the case.

One of the rationales for the introduction of the 110% LTV route was that house prices would soon recover and households would over time be in positive equity. This was based on the experience from the Nordic banking crisis in the early 1990s, where real housing prices collapsed at the time, but recovered several years later. One can also say that the 110% route built a floor under falling house prices in Iceland, since it became impossible for over-indebted households to sell, unless the selling price of the asset recovered 110% of the estimated value of the house. This was in some instances possible since the restructuring was usually based on the official tax value of the home that is in some cases lower that the actual market value of the property. Unfortunately for some households, there was no coordination and consistency between lending institution and in some instances, creditors demanded to use the market value of the property instead of the lower tax estimate when restructuring the mortgage to 110% of LTV.

If households did not recover with the 110% route, a further reduction of debts was made possible in free restructuring negotiations with their creditors. The final option was to apply for debt mitigation at the Debtor's Ombudsman, which involves very strict conditions. The applicant had to, among other things, reveal all income and allow the Ombudsman to have direct access to all financial data from banks, tax authorities etc. The applicant gets an extension of payments and the applicant is not allowed to enter into new debts. The applicant's bank is entitled to close accounts with overdraft facilities, payment services or credit cards. If the application is accepted, a representative will be appointed that will negotiate a contract on debt mitigation, based on the payment of installments in accordance with the financial capacities of the applicant[64].

All these measures resulted in a massive write-down of mortgage debt, due to recalculation of FX-linked mortgages and restructuring of CPI-linked mortgages, amounting to ISK 200 billion at year-end 2011 or around 12.3% of Iceland's 2011 GDP.

The restructuring of mortgage debt in Iceland has come a long way in the last four years. Some would say that too little was done and too late, but at least something was done in providing help to overly indebted Icelandic households. That assistance was not without reason, since without it we would have seen mass bankruptcies at the costs of creditors. The consequences could have been devastating for the housing market as well as for creditors, due to reduced recovery. The Icelandic case is a good example of how cooperation between government, grassroots organisations and mortgage creditors can ease the pain of homeowners in these difficult times we live in. One must not underestimate the Solomon Judgement of the Supreme Court of Iceland that set the tune for restructuring of mortgages with its verdict on FX-linked mortgages.

This saga is not complete and it would not come as a surprise if further restructuring of household debt will be needed, as around 9% of the population over 18 year of age is in 90 days arrears or more (i.e. 26,000 households)[65] and the willingness to pay seems to be deteriorating. Further restructuring is probably needed for households with CPI-linked mortgages, i.e. mainly for those that acquired their first or second property just prior to the collapse of the banks. That will depend on Iceland's future economic prospects.

[64] http://www.ums.is/english/dept-mitigation-for-individuals/

[65] See CreditInfo.

Austria

By Wolfgang Amann and Elisabeth Springler, Institute for Real Estate, Construction and Housing (IIBW), Karin Wagner, Central Bank of Austria

Macroeconomic overview

In 2011, real GDP growth was 3.1%, with an expected slowdown in 2012 to slightly below 1.0%. The Austrian economy is still mainly driven by positive developments in exports and, in particular, by the ongoing strong economic performance of the German and Asian economies. Despite fiscal consolidation, private consumption was stable due to positive developments in the labour market and the trends already seen in 2010 continued over the course of 2011.

Construction investment has developed positively in 2011 with an increase of 2.6%, while the residential sub-sector even increased by 3.8% compared to 2010.

Housing and mortgage markets

Austria has a housing stock of 4.17 million units with altogether 3.65 million households living in their own homes (in 2011). Almost one quarter of the stock was built before 1945, 42% between 1945 and 1980, and one third after 1981. Vienna in particular has a large stock of old housing units, which are in relatively good condition.

The predominant housing tenure in Austria is home ownership associated with a single family home (accounting for 45% of the total housing tenure). Combined with an additional 11% of apartments owned in condominiums, the total home ownership rate reaches 56%. As far as rental tenure is concerned, 24% of the stock consists of affordable housing (limited-profit housing associations and municipal housing), while only around 16% is private rental.

Building permits were stable in 2010 and 2011 (39,500 and 43,300 units respectively). The level of 5.1 permits per 1,000 inhabitants is well above the average of 3.5 in the Euroconstruct countries[66]. Housing completions are developing at a similarly stable rate with 4.6 units per 1,000 inhabitants. This trend is expected to continue in 2012.

The housing market in Austria developed smoothly on average, but was rather dynamic in the capital city Vienna and some other provincial capitals, such as Salzburg and Innsbruck. While the average national rental market recorded changes similar to the inflation rate, i.e. around EUR 6.60 per square meter (excluding taxes and maintenance costs), rents in some metropolitan areas, and particularly in the upper market segment increased at much higher rates.

House prices went up strongly in 2011 by 3.1% y-o-y and increased by 11.0% in Q1 2012 (vs. 4.9% in Q4 2011). However, property price developments showed sharp divergences between different regions and market segments. Price increases were mainly experienced in Vienna, some other regional capitals and some international tourism hot spots, while property prices in the rest of the country stagnated or even declined. To summarise, there are no strong signs that the real estate sector is "overheating" except for, maybe, a few "hot spots". To counter rising house prices in Vienna resulting from increasing housing demand, several urban development projects were set up. The biggest project in this respect is in the area of Aspern which comprises 2.4 million square meters[67] and will offer 8,500 housing units for 20,000 inhabitants as well as approximately 20,000 workplaces over the following decades. The objective is to keep up with mixed tenure and social housing in terms of co-operatives, non-profit housing developers, free market rent and ownership. In late 2013, the first flats will be constructed, while the whole area will be developed by 2013. At the time of writing, numerous infrastructure projects are on the way to ensure the availability of public transport in the area.

The y-o-y growth of mortgage loans granted to households by domestic MFIs has slowed down since the onset of the financial crisis, starting at a rate of around 7.5% in March 2008 and slowing down to 2.4% in May 2010. At the end of 2011, it remained at around 1.0%. The euro area average experienced the same trend, at much higher rates than in Austria (in the euro area it slowed down to 2.9% in December 2011 compared to 0.8% in Austria). Mortgage loan growth in the euro area reached a level of 3.4% in April 2011. Interest rates for newly-granted mortgage loans decreased to 1.2% in February 2012 and thus were lower than in Austria being 1.7% y-o-y in February 2012.

In Austria, foreign currency loans are very popular. In December 2011, 33% of housing loans in Austria were denominated in a foreign currency. Although the market share held by foreign currency loans has decreased since its peak in October 2008 (38.5%), it accounted for around 32% of the outstanding housing loan volume in Q1 2012. However, this was probably mostly due to the exchange rate effects.

In 2011 no changes in housing policy were observed compared to 2010. The key characteristics of Austria's housing policy remained its focus on regulated (i.e. limited profit) rental housing and its financing tools. In 2011, emphasis was also put on state and regional supply-side subsidies, which aim at fostering affordable housing. Public subsidies accounted for around 0.9% of GDP, out of which around 60% was spent for new construction, 25% for renovation and 14% for housing allowances. The affordable rental sector has generous income limits, which are high enough to allow households up to the 8th income decile[68] to access it.

In March 2012, a fiscal consolidation package was set out by the government. Two measures in particular might impact on the housing market and residential property prices. On the one hand, the government bonus for contract saving ("*Bausparkassen*") will be cut in half. Building loans contracts are still very popular among Austrian households. The attractive base interest rates and the government bonus on savings are the incentives which often led households to choose this form of saving. Furthermore, comparatively low interest rates are applied at the beginning of the maturity period and there is an "interest rate ceiling" of 6%.

On the other hand, gains from real estate sales will be taxed by 25%. Owners wanting to sell any property they own in addition to their main residence will have to pay this tax. After a ten-year "speculation period", when gains from real estate sales were taxable, no tax duty has been imposed hereafter. This has been changed recently, although it is not clear yet what the impact on house prices will be.

In addition to these specific public funding tools, the structure and volume of the limited-profit housing sector covers 23% of the housing stock (of which 16% is rental and 7% owner occupied). Altogether, the 190 limited-profit housing associations manage 820,000 housing units in Austria. When including the 8% share of municipality-owned rental flats, the whole Austrian social rental housing sector accounts for 24% of the total dwelling stock.[69]

Despite limited interest rate deductions on mortgage loans, the fiscal incentives to boost homeownership are still of minor importance for housing policy in Austria compared to the volume of direct supply-side subsidies.

[66] Euroconstruct countries are the 15 countries in the Eurozone plus Switzerland, Czech Republic, Hungary, Norway, Poland and Slovakia.

[67] For more information see Municipal Development 18 (MA18) Urban Development and Planning (2011): The project Edition 3, Status:08/2011

[68] See Amann W, Lawson J. and Mundt A. (2009), Structured financing allows for affordable rental housing in Austria, in The Housing Finance International Journal, June 2009.

[69] For further details, seewww.gbv.at, and also Mundt A. and Amann W. (2010), *Indicators of a unitary rental market in Austria*, in: The Housing Finance International Journal, September 2010.

	EU27, 2011	Austria, 2011	Austria, 2010
GDP growth (%)	1.5	3.1	2.3
Unemployment rate (%)	9.7	4.2	4.4
Inflation (%)	3.1	3.6	1.7
% owner occupied	68.9	57.4	57.4
Residential Mortgage Loans as % GDP	51.7	27.8	28.0
Residential Mortgage Loans per capita, EUR thousand	13.01	9.98	9.55
Total value of residential loans, EUR million	6,534,919	83,863	80,000
Annual % house price growth	-1.1	3.1	5.1
Typical mortgage rate (euro area)	3.49	2.86	2.71

Source: EMF, Eurostat, ECB, Central Bank of Austria, Euroconstruct, IIBW

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Austria = 2010

[39] Please note that the euro area "typical mortgage rate" which is reported in each of the country report tables is the year-end variable mortgage rate which is applied in the euro area (Source: ECB). This is used as a proxy for a European average mortgage rate, which would be misleading to produce by using a simple average of national typical mortgage rates.

[40] Please note that the outstanding covered bonds to outstanding residential lending ratios for Austria are estimates.

Belgium

By Frans Meel, Union Professionnelle du Crédit

Macroeconomic overview

The international economic and financial crisis exerted a strong influence on the Belgian economy in 2011. At the beginning of 2011, activity continued to pick up in line with the recovery which had begun in mid-2009: y-o-y real GDP growth, which had averaged 2.3 % in 2010, rose further in Q1 2011 to reach 2.9 %. In Q2 2011, growth dipped slightly, as was also the case in most other euro area countries, before weakening considerably in the second half of the year when the business climate started to deteriorate. At the end of the year, real GDP growth averaged 1.9 % in 2011.

In the construction sector, following a difficult start in Q1 2010 due to a severe winter, activity continued to pick up at a modest pace for the rest of that year. This revival gathered strength in Q1 2011. Construction activity strengthened, being supported by temporary measures under the economic recovery plan, which triggered a sharp rise in applications for building permits. These measures included a temporary reduction in the VAT rate applied to a threshold of EUR 50,000 on new building projects. Moreover, the government measures aiming to stimulate energy-saving investment have had a big influence on the renovation of buildings.

Employment expanded by an annual average of 56 000 units, but job creation came to a halt during the year. Unemployment declined from 8.3 to 7.2 %.

By mid-2011, after a two-year recovery, the main effects of the recession on activity and employment had apparently faded away. In the second half of 2011, the situation deteriorated again as a consequence of the serious sovereign debt crisis and the uncertainty stemming from the political situation in Belgium.

According to the April 2011 stability programme, public deficit was to be cut to 3.6 % of GDP in 2011. However, the actual figure was 3.7 % of GDP, mainly as a result of the insufficient reduction of "structural" (i.e. cyclically-adjusted) deficit. The Belgian public debt, which increased to 98 % of GDP in 2011, still exceeds the figure for the euro area although the gap has narrowed considerably.

Housing and mortgage markets

The property market in Belgium has not undergone any severe adjustment in the wake of the financial crisis since 2009, unlike Spain and Ireland, or, outside the euro area, the United States. In fact, over the previous fifteen years, house prices have generally followed a pattern comparable to that seen in most other European countries, but the increase has been steady, with no excessive booms and no abrupt corrections. Even at the peak of the financial crisis, the fall in house prices was modest and short-lived. Prices began rising again in 2010 and continued to rise slightly over the course of 2011.

Average house prices went up to EUR 189,977 in Q4 2011, compared to EUR 183,276 at the end of 2010 (for an annual increase of 3.7%).

Villa prices also recovered after the second half of 2009 and continued to increase in 2011. In Q4 2011, the average purchase price of a villa amounted to EUR 332,733 compared to EUR 324,436 at the end of 2010, i.e. a 2.6% increase.

The average price for apartments has been increasing since 2010 and has now reached approximately EUR 201,000 EUR, compared to EUR 197,888 at the end of 2010, equating to a 1.5% increase.

The outstanding amount of residential mortgage lending reached around EUR 174 billion EUR at the end of 2011 (against EUR 162 billion EUR at the end of 2010).

In 2011, the total amount of new mortgages granted (including refinancing operations) increased by 4.1% compared to 2010 (this amount grew by 23.7% in 2010 compared to 2009). The number of contracts granted increased by 18% compared to 2010 (this number grew by 21.4% in 2010 compared to 2009). If refinancing operations are not taken into account, the number of new mortgages granted increased by 18.8% compared to 2010, and the corresponding amount increased by 4%. The 2011 figure is the highest on record in mortgage lending in Belgium, following from the previous record high in 2010.

The sustainable growth in 2011 can still be explained, among other things, by very low interest rates, the great success of the "green loans" and by the fact that investing in real estate is considered an alternative to Stock Exchange investment.

Nevertheless, the level of indebtedness of Belgian households remains low, when compared to that in the other European countries.

If we look at quarterly developments, it can be seen that the number of credits granted has remained at a very high level, with the exception of Q3 2011, when the amount of credit granted rose at a much more moderate rate.

As already observed in 2010, the reason for the smaller increase in amount of credit compared to the higher increase in the number of mortgage loans can be explained by the strong increase (of 55%) of loans for renovation in particular, the amounts of which are generally lower. Undoubtedly, this is also an effect of the so-called "green loans" with a 1.5% interest subsidy paid by the public authorities. Since this measure came to an end on December 31st, 2011, many consumers wanted to make their investment decision before the end of last year.

"Purchases" represented 34.7% (equating to a y-o-y decline of 5.1%) of the number of contracts signed in 2011, and this corresponds to 54.9% (i.e. an increase of 0.3%) of the amount of credit. The market share of "constructions" stood at 10.7% as for the number of contracts (-2.1%) and at 13.1% in terms of loans granted (-2.5%). The market share of "renovations" continued to increase, reaching 40.8% of the number of contracts (for an increase of 9.7%), which is to a large extent a result of the government's stimulating measures for energy saving investment.

However, it should be pointed out that the "loss" of market share held by loans granted for "purchase" and "construction" is due to the exceptional increase in the number of loans granted for renovation and consequently, this does not mean that there is a decrease, in real figures, in the number of those two types of credits. In 2011, the number of credits granted for the purchase of houses even reached a record high, i.e. almost 113,000, exceeding the previous record figure of 110,000 in 2010. The number of credits granted for the residential construction (approximately 34,700) was also very close to the 2010 record figure of 35,400.

The average amount of mortgage loans for "house purchases" reached EUR 132,272 around EUR 2,000 more than in 2010 (i.e. an increase of 8%) . The average amount of mortgage loans for renovation purposes dropped by 14%, i.e. down to EUR 26,000. This can be explained by the EUR 15,000 threshold (per person and per year, as well as per house) which the government attached to the above-cited "green credit" measure, resulting in a drop of the average amount.

After having reached a record high of more than 85% in 2007, the market share held by fixed-rate mortgages (i.e. initial fixed period for more than 10 years) dropped to only 36% in Q1 2010. Since then, the share of fixed interest rate loans has been increasing and in Q4 2010 the share of fixed-rate loans reached 75%. Fixed interest loans continued to gain popularity also during 2011. In Q4 2011, almost 9 out of 10 loans granted were at a fixed interest rate. This is due to the fact that the interest difference between fixed-rate loans and loans with an interest rate that changes every year had further narrowed until there was no difference at the end of 2011.

The increase in mortgage lending in 2011 was mainly a result of the government measures that expired at the end of 2011, and so mortgage lending is reasonably expected to drop in the course of 2012.

Some signs of this possible trend became visible already in Q1 2012, during which there was a drop of 24% in the number of credits granted and an 11% decrease in the corresponding amount. As a result, mortgage lending returned to its former long-term level, after an exceptionally buoyant period of all-time record highs in mortgage lending market thanks to "green credits".

	EU27, 2011	Belgium, 2011	Belgium, 2010
GDP growth (%)	1.5	1.9	2.2
Unemployment rate (%)	9.7	7.2	8.3
Inflation (%)	3.1	3.5	2.3
% owner occupied	68.9	n/a	78.0
Residential Mortgage Loans as % GDP	51.7	47.2	45.6
Residential Mortgage Loans per capita, EUR thousand	13.01	15.9	14.9
Total value of Residential Loans, EUR million	6,534,919	174,153	161,723
Annual % house price growth	-1.1	3.7	4.4
Typical mortgage rate (euro area), %	3.49	3.69	3.82

Source: EMF, Eurostat, ECB, National Bank of Belgium, Stadim

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Belgium = 2007

Bulgaria

By Alessandro Sciamarelli, EMF

Macroeconomic overview

Despite the adverse economic conditions across the EU in 2011, the Bulgarian economy experienced another positive year as real GDP grew by 1.7%, following the 0.4% growth recorded in 2010 which had followed the sharp contraction of 5.5% in 2009. In 2011, real GDP growth was nonetheless still below the average rate of 6% that was reached between 2002 and 2008. The economic growth in 2011, albeit modest, resulted from the combination of the drop in domestic demand and the increase in external demand. In particular, gross fixed capital formation plummeted for the third consecutive year (by 9.7%). The strongest contribution to GDP growth came from exports, which recorded another good performance (a growth rate of 12.8%, after 14.7% in 2010), while contribution from imports was particularly negative (by 5.1%). As a result, the current account balance recorded a surplus (1.7% of GDP), after having been in deficit for six consecutive years.

Labour market conditions worsened, as the unemployment rate rose from 10.2% in 2010 to 11.2% in 2011 - almost doubling the rate of 2008 (5.6%) - and growth in employment was negative for the third consecutive year (by 4.2%). Despite modest pressures stemming from domestic demand, average annual inflation accelerated slightly (3.4%) compared to 2011 (3%), reflecting another pronounced annual increase in nominal wages (7.3%, after 11.2% in 2010).

The government budget balance recorded the third consecutive deficit (by 2.1% of GDP), albeit one percentage point lower than in 2010. Public debt remained stable at 16.3% of GDP (same as in 2010).

Housing and mortgage markets

The downturn in housing supply which has been observed since 2007 continued in 2011, as the number of building permits was 10,973, equating to a drop of 14.5% on 2010 (albeit less pronounced than in 2010, i.e. 36.4%). In historical terms, the 2011 figure was 83% less than the peak in 2007.

Housing market conditions continued to deteriorate in 2011. House prices plunged on a yearly basis for the third consecutive year, albeit at a lower rate than in 2010 (6.1% vs.10.1%).

Residential mortgage lending reached EUR 4.5 billion, and grew by a modest 1.1% compared to 2010, and mortgage lending to GDP ratio slightly declined compared to 2010 (11.7% vs.12.4%).

Mortgage demand was supported by the favourable interest rate environment, as the typical mortgage interest rate on BGY-denominated mortgage loans continued to decrease, reaching 8.10% at year-end 2011, against 8.34% one year earlier.

	EU27, 2011	Bulgaria, 2011	Bulgaria, 2010
GDP growth (%)	1.5	1.7	0.4
Unemployment rate (%)	9.7	11.2	10.2
Inflation (%)	3.1	3.4	3.0
% owner occupied	68.9	n/a	86.9
Residential Mortgage Loans as % GDP	51.7	11.7	12.4
Residential Mortgage Loans per capita, EUR thousand	13.01	0.60	0.59
Total value of Residential Loans, EUR million	6,534,919	4,503	4,453
Annual % house price growth	-1.1	-6.1	-10.1
Typical mortgage rate (euro area), %	3.49	8.10	8.34

Source: EMF, Eurostat, ECB, Central Bank of Bulgaria, National Statistical Institute of Bulgaria

Notes:

- *Typical mortgage rate in the euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Bulgaria = 2010

Cyprus

By Alessandro Sciamarelli, EMF

Macroeconomic overview

When put in an historical context, after the period from 2001 to 2008 (when the economy grew by 3.6% on annual average) the continued deterioration in the performance of the Cypriot economy culminated in the recession in 2009 (by 1.7%). After a modest recovery in 2010 (1.1%), real GDP slowed further during 2011 as a result of the euro area sovereign debt turmoil and grew on an annual basis by 0.5%.

Gross fixed investment went down severely y-o-y, i.e. by 13.8%, of which the equipment sub-component plummeted by 23.3%. Construction investment also reduced considerably (by 9%). Domestic demand was also negatively affected by the fall in government spending (4.7%), and imports (5%). The only positive contribution to GDP growth came from external demand, as exports increased on 2010 figures by 3.6%.

Despite the subdued macroeconomic developments and weak domestic demand, inflation accelerated somewhat during 2011 and reached 3.5% on annual average (compared to an increase of 2.6% in 2010).

As a result of boosting exports, the current account balance slightly improved, albeit remaining sharply negative (by 7.3% of GDP, vs. 8.7% in 2010).

The macroeconomic downturn clearly affected labour market developments in 2011. Employment growth was only 0.5%, a very meager recovery after zero growth in 2010 and 0.5% negative growth in 2009 (following eight years of increases of around 2%). The unemployment rate doubled compared to the 2007 figure and peaked at 7.8%.

Public finances continued to sharply deteriorate, and government deficit was recorded for the third consecutive year (6.3% of GDP after 5.3% in 2010). Gross government debt also peaked to 71.6% of GDP.

Housing and mortgage markets

The housing market and residential construction activity underwent a severe downturn also in 2011, as a result of the continued correction from the previous housing cycle (that had led to some excess housing supply) since the onset of the global crisis. Building permits were down by 14.5% on 2010, which amounted to the most pronounced fall in residential construction activity on record. Residential investment plummeted for the third consecutive year (by 21.5%, after 5.4% and 19.5% in 2010 and 2009 respectively). Housing completion data for 2011 is not yet available but latest figures (2010) signal a continuation in the downward trend already witnessed in 2009, with the number of completed dwellings going down by 19.3% on a yearly basis.

As far as housing demand is concerned, house prices fell for the third consecutive year, and experienced their most severe decline on record (5.2%).

Outstanding residential mortgage increased by 5.2% on an annual basis, but this was a sharp slowdown compared to the double-digit growth rates in recent years (14.7% in 2010).

Mortgage interest rates (variable up to one year) increased compared to year-end 2010 (5.73% vs. 5.16%) but they remained at low levels when put in an historical context, particularly if compared to the levels observed at the onset of the crisis (6.47% at year-end 2008).

	EU27, 2011	Cyprus, 2011	Cyprus, 2010
GDP growth (%)	1.5	0.5	1.1
Unemployment rate (%)	9.7	7.8	6.2
Inflation (%)	3.1	3.5	2.6
% owner occupied	68.9	n/a	74.7
Residential Mortgage Loans as % GDP	51.7	71.3	69.4
Residential Mortgage Loans per capita, EUR thousand	13.01	15.74	14.98
Total value of Residential Loans, EUR million	6,534,919	12,658	12,033
Annual % house price growth	-1.1	-5.2	-2.5
Typical mortgage rate (euro area), %	3.49	5.73	5.16

Source: EMF, Eurostat, ECB, Central Bank of Cyprus, Statistical Service of Cyprus

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Cyprus = 2010

Czech Republic

By Juraj Holec, Hypoteční banka

Macroeconomic overview

The Czech economy began to slow in 2011 as a result of weakening domestic demand. Economic growth fell by 1 percentage point compared to 2010 and was 1.7%. This was mainly the result of falling household and government consumption and a decrease in investment. On the contrary, exports continued to grow at a two-digit rate, providing the biggest contribution to economic growth. In spite of this, during the second half of the year the Czech economy slipped into recession, which worsened at the beginning of 2012. Not even the excellent results of the export-oriented industry - mainly automotive and electrical equipment production – were able to offset the slump in the construction and (partly) service sectors. As expected, the fall in external demand also slowed.

However, the impending recession did not manage to affect development of the Czech labour market in 2011 and at the beginning of 2012. The unemployment rate fell slightly and reached 7.2% in early 2012, i.e. one tenth of a percentage point less than at the same time one year earlier. In addition to positive development of the unemployment rate, the labour market was characterised by a further deceleration of growth in real wages, i.e. 0.3%. Even though the economy is weakening and consumption is falling, inflation in early 2012 went significantly above the target set by the Czech National Bank (CNB) and was recorded at 3.8% in March. The main reason for the accelerated inflation rate was the increase in the lowest VAT rate (from 10% to 14%), the continued deregulation of prices and the impact of the high oil price on the domestic economy.

Thanks to low inflationary pressures, the CNB was able to continue its low interest rate policy and its policy rate has remained at 0.75% since May 2010. The Central Bank's low interest rates, together with the rather gloomy forecast for the Czech and European economies, have gradually pushed market interest rates on the far end of the curve down to the current historical low (the ten-year swap fell below 2% in May 2012). The fall in market rates has also affected the development of interest rates on newly granted loans, both to non-financial enterprises and households.

	EU27, 2011	Czech Republic, 2011	Czech Republic, 2010
GDP growth (%)	1.5	1.7	2.7
Unemployment rate (%)	9.7	6.7	7.3
Inflation (%)	3.1	2.1	1.2
% owner occupied	68.9	78.6	76.6
Residential Mortgage Loans as % GDP	51.7	13.0	12.4
Residential Mortgage Loans per capita, EUR thousand	13.01	1.91	1.77
Total value of Residential Loans, EUR million	6,534,919	20,161	18,557
Annual % house price growth	-1.1	n/a	-2.9
Typical mortgage rate (euro area), %	3.49	3.56	4.23

Source: EMF, EUROSTAT, ECB, Czech National Bank, Czech Statistical Office, Ministry for Regional Development

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Czech Republic=2010

Housing and mortgage markets

The downward trend in housing construction has been going on for four years now as it also continued in 2011. The volume of newly-constructed housing fell on a yearly basis by approximately 2%. However, this was a fall by more than 37% compared to the peak of 2007. Similar negative development applied to housing completions. Housing demand during 2011 remained subdued (which was also confirmed by development of real estate prices), even though it benefitted from a short-term stimulus in early 2011 which anticipated the increase in the VAT rate and ultimately affected new residential construction. Concerns over the increase in VAT were clearly evident from the growing interest in new housing loans at the end of the year, as the number of new mortgage loans increased by 40% and their volume recorded a similar increase.

The aforementioned figures include re-fixation of mortgage rates (within the terms under which the client moves from one bank to another). The total value of housing loans during 2011 grew much more slowly, by approximately 6%. Similar developments could also be seen during Q1 2012, when interest rates on new mortgage loans rose only very slightly compared to the end of 2011. The volume of mortgage loans has stabilised around the level of 12% of GDP in recent years, and remains significantly lower in comparison to the European average (45%). In spite of the weaker performance of the economy, the quality of bank loan portfolios with regard to housing loans remains very solid. This is due to the low non-performing loans ratio which is slightly above 3%. With regard to the deteriorating outlook for the Czech economy, 2012 will probably also be a weaker year for the real estate market. A new increase in VAT rates was planned to enter into force in early 2013. This increase will only be of 1% and is therefore most likely to provide no stimulus to the housing market.

Denmark

By Kaare Christensen, Association of Danish Mortgage Banks

Macroeconomic overview

The slow recovery in the Danish economy continued in the first half of 2011. Macroeconomic improvement, however fragile, was mainly driven by the recovery of the Swedish and German economies, which constitute two of the more important trading partners for Denmark. In the first half of the year, the improved foreign trade balance managed to compensate for stagnating private and public consumption. Hence, the fragile recovery in the Danish economy reversed in the second half of the year, when uncertainty stemming from the debt crisis in part of southern Europe hit stock markets and consumer confidence in the beginning of Q3 2011. Overall, the Danish economy grew at a real rate of 1% during 2011, despite receding demand in the second half of the year. At the same time, the unemployment rate stayed more or less constant at around 6.2% on average in the year (7.6% according the EU-harmonised unemployment rate, vs. 7.5% in 2010). Despite cautious Danish consumers preferring to bolster private balance sheets, Danish consumer prices rose at a yearly rate of 2.8% (2.7% according the Harmonised Index of Consumer Prices).

While Danish interest rates followed European rate hikes in the first half of 2011, rates plummeted to all time lows over the second half of the year. While interest rates on government debt in several Mediterranean economies soared, Danish rates benefitted from investor confidence in the Danish economy. Danish interest rates normally follow European rates closely to uphold the Danish peg to the euro. However, investors' perception of Denmark as a "Safe Heaven" forced the Danish Central Bank to autonomously lower its policy rates twice (by a total of 50 basis points) during the autumn of 2011, in order to ease the pressure on the appreciating Danish currency.

Housing and mortgage markets

While starting out on a positive note, the year 2011 ended up as a relatively large setback for the Danish housing market. While the extensive supply of owner-occupied dwellings reached an all time high, during the summer, cautious consumers stood back from the market. As a result, in 2011, 26,000 detached and terraced houses, 9,700 owner-occupied flats and 3,600 holiday homes were sold. On average, transactions were down by almost 30% relative to the historical average.

The supply of owner-occupied dwellings peaked during the summer, but fell back during the second half of the year. This was not due to increased sales activity, but mostly to the very low number of new homes that were put up for sale. By year-end 2011, about 65,000 owner-occupied dwellings were on the market via the internet. This is 8.3% more than the previous year, when the number was about 60,000. The increase in housing supply has occurred across all regions in Denmark. The supply of housing is still dominated by a large number of detached and semi detached houses for sale. By the end of the year, 44,583 detached and terraced houses were on the market. This is an increase of 20.2%compared to one year earlier. By year-end, 9,636 owner-occupied flats and 11,275 holiday homes were on the market, signifying an increased supply of 0.5% and 14.9% respectively.

In 2011, house prices fell almost everywhere in the country. The largest price falls were recorded in the second half of 2011. Prices of detached and semi-detached houses decreased by 7.9% from year-end 2010 to year-end 2011, while prices of owner-occupied flats decreased by 6.6% over the same period.

Prices of detached and terraced houses declined most severely in Copenhagen and in the neighbouring region. From year-end 2010 until year-end 2011, prices declined by 8.7% in the København Region and by 10.9% in the Sjælland Region. In the western regions of the country, prices declined by around 6%. For a while, prices of owner-occupied flats seemed to hold up. However, in Q4 2011 the owner-occupied flat market also experienced a severe downturn. Yearly price declines were strongest in Copenhagen, the surrounding region of Sjælland in the southern part of the country, where prices fell by 8.1%, 12.4% and 9.5% from year-end 2010 to year-end 2011 respectively.

As a direct consequence of the subdued condition of the housing market, lending activity declined down to its lowest level in the past 15 years. ARM (Adjustable Mortgage Rate) loans remained the most popular loan type. Although borrowers seemed to shift towards fixed rate loans in the first half of the year, when interest rates rose along with consecutive rate increases from the ECB, only one out of four new loans issued over the course of the entire year was with the interest rate fixed to maturity. This proportion is low in a Danish context, and was only surpassed in 2009 when approximately one out of ten new loans were fixed to maturity. Total mortgage lending grew from DKK 2,363 billion in 2010 (EUR 317 billion) to 2,405 billion (EUR 323 billion) in 2011. Total lending for dwellings, including holiday homes, amounted to DKK 1,800 billion (EUR 242 billion), while total commercial mortgage lending accounted for DKK 605 billion (EUR 81 billion).

Danish mortgage banks' gross lending (residential and commercial) amounted to DKK 299 billion (EUR 40.2 billion) in 2011. Combined with the subdued housing market, low prepayment activity in the first three quarters of the year led gross and net lending to low levels once put in an historical context. Retail and commercial customers prepaid existing loans and repayments reached the value of DKK 257 billion (EUR 34.5 billion). Net lending thus amounted to DKK 42 billion (EUR 5.6 billion) against DKK 65 billion (EUR 8.7 billion) in 2010. Net lending has been declining since 2007 to a fifteen-year low at end-2011. This decline was due to the downturn in house prices in all parts of the country. Also, the levels of turnover and new building activity remained low.

Residential lending was lower in 2011 than in 2010. Gross lending was DKK 221 billion (EUR 29.7 billion) in 2011, down by DKK 132 billion (EUR 17.7 billion) or 37% on 2010. Net lending for dwellings (including holiday homes) dropped by 33% from DKK 44 billion (EUR 5.9 billion) in 2010 to DKK 29 billion (EUR 3.9 billion) in 2011. In 2011 gross lending to businesses in the sectors of agriculture, industry, trade, office and retail was DKK 78 billion (EUR 10.5 billion), down by 14% on the previous year. Net commercial lending declined by DKK 8 (EUR 1.1 billion) from DKK 21 billion (EUR 2.8 billion) in 2010 to DKK 13 billion (EUR 1.7 billion) in 2011.

Mortgage funding

An increasing amount of outstanding mortgage loans in Denmark are financed by short-term bullet bonds. This is due to the fact that the majority of Danish home owners and businesses still prefer ARM loans rather than fixed-rate loans. For the whole year of 2011, DKK 667 billion (EUR 89.5 billion) worth of bullet bonds backing ARM loans were issued.

From 2010, Danish mortgage banks have started to issue only new ARM loans based on bullet bonds maturing outside the month of December; in doing so, they have spread the refinancing risk more evenly across the year. This meant that only two thirds of outstanding bullet bonds backing ARM loans – amounting approximately to DKK 457 billion (EUR 61.3 billion) were refinanced in December 2011. This was a decrease of 21% compared to 2010 when approximately DKK 575 billion (EUR 77.2 billion) were issued in December. In 2009 and 2008 the numbers were DKK 500bn and DKK 350bn respectively.

In December, the sale of mortgage bonds underlying the loans for which the interest rate was adjusted went as planned. Bond demand was strong, and the December auctions saw a bid-to-cover ratio of around three. In combination with declining mortgage rates, borrowers with ARM mortgage loans saw new record lows in interest rates in 2011 (the one-year rate was 0.9%). When an ARM loan is adjusted with a new interest rate, the mortgage banks must sell new mortgage bonds to replace the ones that expire; thus, the price that investors are willing to pay for the bonds determine the new interest rate payable by the borrowers.

	EU27, 2011	Denmark, 2011	Denmark, 2010
GDP growth (%)	1.5	1.0	1.3
Unemployment rate (%)	9.7	7.6	7.5
Inflation (%)	3.1	2.7	2.2
% owner occupied	68.9	53.5	53.6
Residential Mortgage Loans as % GDP	51.7	100.9	100.7
Residential Mortgage Loans per capita, EUR thousand	13.01	43.52	42.88
Total value of Residential Loans, EUR million	6,534,919	241,996	237,313
Annual % house price growth	-1.1	-7.9	1.9
Typical mortgage rate (euro area), %	3.49	4.14	4.68

Source: EMF, Eurostat, ECB, Danish National Bank, Statistics Denmark

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Denmark= 2011

Estonia

By Alessandro Sciamarelli, EMF

Macroeconomic overview

Despite the financial and economic turmoil affecting the euro area (of which Estonia became the 17th member on January 1st, 2011) the recovery of the Estonian economy during 2011 gained momentum. Real GDP increased y-o-y by 7.6%, further to the 2.3% increase recorded in 2010 that had followed the dramatic recession of 2009 (of 14.3%).

Gross fixed capital formation provided the strongest contribution to GDP growth. In the two previous years it had dramatically fallen (by 53% between 2009 and 2010), but in 2011 it bounced up vigorously (by 26.8%) albeit without recovering from the severe cumulative loss experienced over the period. Once it is broken down by its subcomponents, investment in equipment rose by 44.7% and construction investment went up by 14.7%.

As a result of more vigorous economic recovery, inflation sharply accelerated and reached 5.1% on yearly average from 2.7% in 2010 (it was only 0.2% in 2009).

The EU-harmonised unemployment rate, after reaching its record high of 16.9% in 2010, decreased to 12.5%, albeit remaining well above 10% and, in general, the levels observed prior to the financial crisis (5.5% in 2008).

Public finance indicators proved stable and Estonian figures fully complied with the Maastricht Treaty (and new set of rules agreed in the "Fiscal Compact"): government deficit was only 1% of GDP and general government debt decreased from 6.7% in 2010 to 6% in 2011, i.e. the lowest in the EU27.

Housing and mortgage markets

Since the sharp recession in 2009 – resulting from the severe correction from the peaks in residential construction activity between 2001 and 2006 (when 12,863 building permits were issued for a population of 1.3 million inhabitants) - housing supply has stabilised but has remained at low levels compared to the years prior to the crisis.

In 2011, building permits increased for the second consecutive year (9.6% after 24% in 2010), but the number of permits was only around one fifth of the level recorded in 2006. Completions fell for the fourth consecutive year, lagging the falls in residential construction activity, albeit at lower rates (17.5% vs.23.2% in 2010). Yet, residential investment picked up by 15.8% on 2010, after the 3.6% fall recorded one year earlier. On the demand side, the ECB's new time-series on residential property price index shows that house prices at national level increased y-o-y in 2011 by 9.9% after apartment developments in 2010. However, in 2009 and 2008, as a result of the severe housing market downturn, prices had recorded a cumulative loss of 44.6% from the peak experienced in 2007, which means that the increase observed in 2011 clearly was not enough for prices to recover up to that level.

As for the other two Baltic Republics, during the 2000s, mortgage lending in Estonia experienced an extremely positive cycle (average annual growth rate in outstanding mortgage lending between 1999 and 2008 was 43.6%) boosted by favourable macroeconomic developments and declining interest rates. In addition, there were perspectives of financial and macroeconomic stability ahead of future adhesion to the euro area, which eventually took place on January 1st 2011 after twelve years of a "peg" exchange rate regime. Despite the support coming from the stronger recovery in the macroeconomic environment, mortgage lending activity in 2011 continued to mirror curbed housing demand. As a result, outstanding mortgage lending in 2011 decreased for the third consecutive year (by 1.7%, i.e. slightly less than 2.4% in 2010), and remained under the threshold of EUR 6 billion (which had been reached only in 2008 and 2009). New lending reached EUR 490 million which represented an annual increase for the first time after falling severely for three consecutive years, but was 79% lower than the peak recorded in 2006 (EUR 2.4 billion). The ratio of outstanding mortgage lending to GDP decreased, as it had in 2010, and went from 41.7% in 2010 to 36.7.2% in 2011 due to the decrease in the numerator, i.e. mortgage lending and the simultaneous increase in the denominator, i.e. nominal GDP.

As a response to eased monetary policies in the aftermath of the crisis, particularly in the course of 2011, the interest rate environment proved supportive of mortgage lending demand. The revised time-series for mortgage interest rates on EUR-denominated loans showed that they went down to an historic low of 3.43% in December 2010. At year-end 2011 they increased by 3 basis points only, thus remaining at very low levels (they were at 5.28% at year-end 2008, at the onset of the crisis).

	EU27, 2011	Estonia, 2011	Estonia, 2010
GDP growth (%)	1.5	7.6	2.3
Unemployment rate (%)	9.7	12.5	16.9
Inflation (%)	3.1	5.1	2.7
% owner occupied	68.9	85.5	85.5
Residential Mortgage Loans as % GDP	51.7	36.7	41.7
Residential Mortgage Loans per capita, EUR thousand	13.01	4.38	4.46
Total value of Residential Loans, EUR million	6,534,919	5,869	5,971
Annual % house price growth	-1.1	9.9	0.1
Typical mortgage rate (euro area), %	3.49	3.46	3.43

Source: EMF, Eurostat, ECB, Bank of Estonia, Statistics Estonia

Notes:

- *Typical mortgage rate in the euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Estonia = 2010

Finland

By Elina Salminen, Federation of Finnish Financial Services

Macroeconomic overview

In 2011, economic growth in Finland slowed down slightly, but still remained relatively strong. Real GDP grew by 2.7% on an annual basis compared to 3.7% in 2010. The growth seen in 2011 was mainly driven by private consumption (which expanded by 2.5%), exports, as well as by gross fixed capital formation (which grew by 6.8%). Private consumption was fuelled by a relatively good employment situation and increasing consumer confidence, despite the uncertainty caused by the euro area debt crisis.

Exports grew by 2.6% on an annual basis in 2011. The growth in the external demand for Finnish products was still weaker than before the financial crisis, due to the fact that a large proportion of exports concerns investment products. However, Finland´s key export partners– Germany, Sweden and Russia – were performing better than the euro area on average, which contributed positively to external demand.

As a consequence of the modest growth in the volume of exports, the trade balance surplus turned negative in 2011 and showed a deficit of -0.6% of GDP. The trade balance has been affected by the weak growth in Europe and also by structural factors such as the relocation of production outside Finland.

Public finances improved somewhat but the general government balance remained negative, with a deficit of -0.6% of GDP. The general government gross debt-to-GDP ratio climbed to 49.1% in 2011.

The annual average unemployment rate was 7.8% in 2011, compared to 8.4% in 2010.

Inflation remained relatively high in 2011 in Finland, as the national consumer price index rose by 3.4% on an annual basis, resulting in a slight decrease in household real income.

Housing and mortgage markets

Housing markets in the Helsinki region diverge significantly from the rest of Finland, as the prices and demand are much higher in Helsinki. In December 2011, the average price per square meter of an old dwelling was EUR 2,048 in the whole country. However, it reached EUR 3,187 in Greater Helsinki and EUR 1,601 elsewhere. In 2011, housing prices decreased slightly in real terms, owing to high inflation, but continued to rise modestly in nominal terms.

In 2011, the number of new housing starts decreased by 5.3% on the previous year, to reach 31,091 units. However, the number of housing completions increased by 23.9% on an annual basis, on the back of the government stimulus program which contributed to the high number of housing starts in 2010. The purpose of the stimulus program was to support new rental housing and ease the deep recession in Finland in 2009, when GDP dropped by 8.2%.

At the end of 2011, the total housing loan portfolio stood at EUR 82 billion (i.e. 42.9% of GDP), and the annual growth rate in 2011 reached 6.7%, which meant a second consecutive year of fairly stable growth.

In 2011, new housing loans stood at EUR 20 billion, up from EUR 18.5 billion in 2010. As a consequence, the monthly average amount was EUR 130 million smaller in 2010.

In 2011, 82% of new housing loans were linked to the Euribor rates and, among these new Euribor loans, the most popular linking period for interest rate continued to be 12 months. In December, 45% of the Euribor-linked housing loans used the interest rate of 12 months. The second most popular (37%) linking period in Euribor rates was 3 months. Due to the popularity of the Euribor, the interest rates of new housing loans in Finland were the lowest in the euro area. However, the sensitivity of housing loans to swings in short-term market interest rates is higher in Finland than in many other euro area countries.

In December 2011, the average interest rate on new housing loans stood at 2.55%, while the euro area average was 3.76%. Exceptionally low interest rates have led to a marked increase in the overall household debt in recent years. At present, nearly 30% of Finnish households have a housing loan, and the average outstanding loan amount was EUR 89,350 in 2011. Since 2002, average housing loans have grown by 74% in nominal terms.

Mortgage funding

Deposits are the main source of mortgage funding in Finland. At the end of December 2011, credit institutions' stocks of deposits amounted to EUR 129 billion, of which households accounted for 65%, non-financial corporations for 21%, general government for 8% and financial and insurance corporations for 6%. About 60% of non-MFI deposits are overnight deposits[70]. In 2011, the growth in the stock of non-MFI deposits accelerated and reached 9% on average.

Credit institutions' stock of long-term debt securities increased steeply in 2011. At the end of 2011, the stock of bonds stood at EUR 54 billion, up from EUR 43 billion at the end of 2010. In 2011, credit institutions issued far more bonds than the amount which matured. Over the entire year, issues amounted to a total of EUR 21 billion. Covered bonds were issued for a total amount of EUR 9.7 billion. The volume weighted average original maturity of all the bonds issued during the year was slightly below 6 years.

The importance of covered bonds as a funding source has increased notably in recent years. Retail banks have also been allowed to issue covered bonds since 2010. In Finland, no active RMBS market exists.

	EU27, 2011	Finland, 2011	Finland, 2010
GDP growth (%)	1.5	2.7	3.7
Unemployment rate (%)	9.7	7.8	8.4
Inflation (%)	3.1	3.4	1.7
% owner occupied	68.9	74.1	74.3
Residential Mortgage Loans as % GDP	51.7	42.7	42.7
Residential Mortgage Loans per capita, EUR thousand	13.01	15.21	14.34
Total value of Residential Loans, EUR million	6,534,919	81,781	76,747
Annual % house price growth	-1.1	2.7	8.7
Typical mortgage rate (euro area), %	3.49	2.58	2.17

Source: EMF, Eurostat, ECB, SILC, Bank of Finland, Statistics Finland, Finnish FSA

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Finland = 2011

[70] In practice, these deposits are mainly current accounts.

France

By Jean-Marie Gambrelle, Crédit Immobilier de France

Macroeconomic overview

The growth of French real GDP by 1.7% in 2011 slightly exceeded that of 2010 (1.4%) and was a little higher than the average in the euro area (1.5%). 2011 however has followed two trends: a very positive Q1 2011, which followed two years of recovery after the drop of the end of 2008; then a very slow growth which followed over the second half of the year.

The French economy benefited from the growth in inventory (which contributed to half of the economic growth), in private fixed investment (5.1%) and final consumption (3.1%), and in exports (5.3 %), contrary to private household consumption (0.3% only). In addition, building activity recovered after three consecutive years of decrease.

Total employment in France rose by 0.7% and the unemployment rate marginally decreased compared to 2010 (9.7% vs.9.8%).

The inflation rate was 2.3% on annual average. Household income increased by 2.6%, (but only 0.5% once inflation-adjusted): as a result, the average household income decreased marginally (-0.1%).

The household saving rate rose by 0.2% on average up to 16.1%, which is a very high level, but the financial saving rate decreased by 0.2% down to 6.8%.

The government deficit decreased from 7.1% of GDP to 5.2%, of which 1.4% was due to an increase in the tax burden and 0.6% to the decrease of public spending.

Housing and mortgage markets

The number of transactions for exiting homes increased by 9.4% and reached a record high in the country: 858,000 in 2011 against 837,000 in 2006, which was the earlier peak. The housing market in the Ile-de France region experienced a fast growth in prices (10.6% on an annual basis) equating to an average price of EUR 5,550 per square meter (EUR 8,400 in Paris) but decreasing in the number of transactions (by 8%). In the rest of the country the market increased in transactions (14%) but not in prices (there was a 1.3% decrease for single-family houses and a 2.7% increase for flats): this picture shows a balance between prices and solvability in this market, particularly for the for the owner-occupier segment, except for the housing market in the Ile-de-France region.

The sales of new dwellings decreased by 11% for flats and single-family houses, and the prices of flats rose by 2.8%. The slowdown in sales is due perhaps to the rise in rates and certainly to the reduction of the strong government support that had been in place since 2009 to boost house-building activity, as in January 2011, the fiscal advantage for buy-to-let properties was cut by 50% and the support to owner-occupiers was reduced.

At the end of 2011 mortgage interest rates in France were higher than one year earlier. The typical fixed rate rose from 3.4% at end-2010 to 3.9% at end-2011.

Gross residential lending decreased to EUR 136 billion against EUR 158 billion one year earlier, but residential mortgage loans outstanding increased faster than nominal GDP, i.e. by 5.8% (i.e. by 54 billion) reaching EUR 850 billion at year-end.

The worsening of the financial crisis in Q3 and Q4 2011 should have an impact on the mortgage market, which has not yet been reflected in data on gross residential lending and/or sales so far.

Funding

In 2011, all forms of deposits remained the main source for mortgage lending activity in France: around 19% were reserved for public auctions, while the remaining 81% of household deposits rose by 5% to EUR 919 billion, which was less than the amount of mortgage and consumption loans to households. As a result, the majority of French lenders had to issue mortgage-secured debts.

On the other hand, the prevailing form of financial investment of French households remained life insurance, which amounted to EUR 1,362 billion: the low yields of bonds, particularly the most secured, impacted the yield and caused a slowdown in insurance growth and deposits gained ground.

Q4 2011 was a particularly difficult time for financial markets, which were then relieved by the ECB's first Long-Term Refinancing Operation (LTRO) in December 2011. The ECB also launched a second LTRO in February 2012.

As a result of these different trends, the year 2011 was characterised by high uncertainty.

	EU27, 2011	France, 2011	France, 2010
GDP growth (%)	1.5	1.7	1.4
Unemployment rate (%)	9.7	9.7	9.8
Inflation (%)	3.1	2.3	1.7
% owner occupied	68.9	57.8	57.8
Residential Mortgage Loans as % GDP	51.7	42.4	41.2
Residential Mortgage Loans per capita, EUR thousand	13.01	12.96	12.31
Total value of Residential Loans, EUR million	6,534,919	843,200	796,600
Annual % house price growth	-1.1	4.0	7.6
Typical mortgage rate (euro area), %	3.49	3.90	4.00

Source: EMF, Eurostat, ECB, Banque de France, INSEE

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

France = 2008

Germany

By Thomas Hofer, Association of German Pfandbrief Banks

Macroeconomic overview

The upturn of the German economy continued in 2011. Gross Domestic Product (GDP) increased in real terms by 3% y-o-y. However, the upswing started to falter in Q4 2011, as the slowdown in the global economy curbed German exports. Despite the temporary economic slowdown, the labour market remained in buoyant condition. The unemployment rate continued to decline and reached 5.9% in 2011. Growing wages, assumed low risk of unemployment, favourable financing conditions and the positive sentiment among private households all combined so as to make investment in housing more attractive.

	EU27, 2011	Germany, 2011	Germany, 2010
GDP growth (%)	1.5	3.0	3.7
Unemployment rate (%)	9.7	5.9	7.1
Inflation (%)	3.1	2.5	1.2
% owner occupied	68.9	43.2	43.2
Residential Mortgage Loans as % GDP	51.7	45.3	46.5
Residential Mortgage Loans per capita, EUR thousand	13.01	14.24	14.09
Total value of Residential Loans, EUR million	6,534,919	1,163,783	1,152,195
Annual % house price growth	-1.1	2.0	0.7
Typical mortgage rate (euro area), %	3.49	3.54	3.70

Source: EMF, Eurostat, ECB, Federal Statistical Office Germany, Deutsche Bundesbank

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Germany = 2002

Housing and mortgage markets

In 2011, residential investment increased by 6.3%. Such a trend was halted two years ago after a long period of low housing investment. After a sideways movement in 2009 and moderate growth in 2010, construction activity increased strongly in 2011. The number of building permits also rose by 21.6% on the previous year.

The number of transactions has been relatively stable for several years. Since housing market activity picked up, transactions increased by 10.5% to 570,000 in 2011.

Prices for residential properties continued to rise in 2011. The House Price Index for Owner- Occupied Dwellings published by the Association of German Pfandbrief Banks (vdp) increased by 2.5% on 2010. Equally, both the sub-indices recorded positive developments: prices for single family houses and for condominiums increased by 2% and by 4.2% respectively.

At the end of 2011, mortgage interest rates in Germany were lower than at the end of the previous year. The typical mortgage rate went down to 3.54% from 3.70% in 2010.

The positive developments in the housing market were reflected in the growth in residential lending. In 2011, gross residential lending increased by 8.7% y-o-y. The volume of outstanding residential loans rose slightly. Outstanding loans amounted to EUR 1,164 billion, which corresponded to an increase of 1% on 2010.

Funding

Germany has the largest covered bond market in Europe, accounting for 27.3% of the total market. The sub-sector of this market for mortgage bonds is also strong in Germany and accounted for 13.5% of the total EU market in 2011.

In the year under review, *Pfandbriefe* totalling EUR 72.8 billion were brought to the market (in 2010 they were EUR 87 billion). Public *Pfandbriefe* worth EUR 31 (41.6 in 2010) billion were sold, and mortgage *Pfandbriefe* sales accounted for EUR 40.9 (42.2 in 2010) billion. Ship *Pfandbriefe* worth EUR 0.9 billion (3.2 in 2010) were issued in 2011.

As repayments exceeded new sales, the outstanding volume of *Pfandbriefe* decreased to EUR 586 billion in 2011 (from 639.8 billion in 2010). Whereas the volume outstanding of mortgage *Pfandbriefe* increased slightly from EUR 219.9 billion in 2010 to EUR 223.7 billion in 2011, Public *Pfandbriefe* declined from EUR 412.1 billion to EUR 355.7 billion. In 2011, Ship *Pfandbriefe* accounted for EUR 6.6 billion (EUR 7.8 billion in 2010).

[42] Please note that this figure refers to the VdP Index for all owner-occupied housing, while the figure reported for Germany on Table 11 of the Statistical Appendix refers to the sub-segment of single-family houses. The House Price Index for owner-occupied housing is a weighted average of the sub-indices for single-family houses and owner-occupied apartments respectively.

Greece

By Theodore Mitrakos, Economist, Bank of Greece

Macroeconomic overview

The recession in the Greek economy that began in 2008 continued unabated. In 2011, real GDP contracted by 6.9% against 3.5% in 2010 and 3.3% in 2009. The situation worsened in Q4 2011 (with a y-o-y contraction of -7.5%) and in the first semester of 2012 (with a y-o-y contraction of -6.4%) reflecting, among other things, the still high uncertainty. In 2011, the decline in GDP was driven by the fall in domestic demand, whose negative contribution to GDP stood at 10.6%. Both private consumption and gross fixed capital formation contracted in 2011, the latter dropping much more than expected (i.e. by 20.7%), while the former decreased by 7.1%. Public consumption also contributed to the decline in domestic demand contracted by 9.1%. Net exports contributed positively to GDP in 2011 (i.e. by 2.4%), owing to another sharp decline in imports (-8.1%), as a result of the fall in domestic demand. In quarterly terms, one of the reasons for the deterioration in GDP growth in Q4 2011 was the halt in q-o-q growth registered in real exports of goods between Q4 2010 and Q3 2011. Exports of goods and services increased y-o-y by 1.5% in Q1 2012, against an average decrease of 0.3% in 2011 and an increase of 4.2% in 2010.

The industrial production decline was 8.3% in 2011, down from 5.8% in 2010. Most sectors of the Greek economy were affected by the downturn. Real value added contracted by 9.1% in the manufacturing sector and energy (-5% in 2010), 17.9% in the construction sector (-8.1% in 2010) and 5.9% in the services sector (-3.1% in 2010). By contrast, agricultural value added increased by 2.5% but, given the sector's small size, this positive development had little effect on GDP as a whole.

The decline in production was the main cause of the net loss of some 298,000 jobs and the surge in unemployment by approximately 248,000 people in 2011. Total employment fell by 1.1% in 2009, 2.7% in 2010 and 6.8% in 2011[71] (dependent employment fell by 1.6%, 3.0% and 7.5% respectively). In absolute terms, the unemployment rate rose from 9.5% in 2009 to 12.5% in 2010 and reached 17.7% in 2011 and 22.6% in Q1 2012. According to the last available provisional figures, in May 2012 total employment fell by 7.4% y-o-y and the unemployment rate reached 22.9%.

Inflation eased further, with headline inflation falling well below the euro area average once the effects of the substantial tax increases are stripped out. In particular, prices decelerated to 1% in June 2012, from an average HICP inflation reaching 3.1% in 2011, 4.7% in 2010 and 1.3% in 2009. This surge in inflation in 2010 and in early 2011 was mainly due to the fact that fiscal adjustment in Greece is set to take place to a great extent through VAT and excise taxes increases, as well as through price hikes of services provided by deficit-ridden public sector entities. Unit labour costs continued to fall, which has significantly improved cost competitiveness, although the impact is not yet reflected in export performance.

The initial target for fiscal consolidation was missed in 2011 due to a weaker economy than had been anticipated and to delays in implementation of structural and fiscal reforms.

Housing and mortgage markets

The Greek real estate market, having shrunk substantially during the current crisis, remains at the same low level, without any signs of recovery as medium-term expectations are still negative. It continues to be characterised by excessive supply (there is still a substantial stock of about 200,000 houses for sale), coupled with a considerable stock of unsold properties and very low demand. Reduced demand in the Greek housing market reflects household expectations for further decline in house prices and, mainly, increased uncertainty about employment and future income. It is also associated with the overall prospect of addressing the fiscal and structural problems of the Greek economy, In addition, the more cautious and selective attitude of banks in granting new loans has also contributed to the decline in demand.

Despite excessive supply and weak demand in the real estate market, apartment prices, mainly the newly built ones, have shown some resilience during the current crisis. It was supported by the high percentage of self-occupancy (over 80%), the large number of very small (family) businesses involved in house construction (about 12,000-14,000), which, before the current crisis, had gained substantial profits that enabled them to steer away from bank loans, as well as the low frequency of real estate resale. Price resilience is also associated with increased construction costs that make the replacement of the existing stock of houses more difficult, the high cost of transactions (transfer tax, notarial and lawyer's fees, etc), the traditionally high confidence of households in real estate, and the social perceptions of Greek households, which consider residential properties as assets to be transferred from one generation to the next rather than investment assets.

Between the onset of the current crisis (in Q3 2008) and Q2 2012, the residential property prices declined by a cumulative 19.1%. According to the data that the Bank of Greece collected from commercial banks, residential property prices in Greece declined by 3.7% on average in 2009, 4.7% in 2010 and 5.4% in 2011. In Q1 2012 and Q2 2012, residential property prices fell y-o-y by 9.3% and 10.1% respectively (compared to -6.5% in Q4 2011). In the Athens area, residential property prices fell on average by 4.6% in 2009, 3.2% in 2010, 6.4% in 2011, 10.1% y-o-y in Q1 2012 and 10.8% in Q2 2012. The fall in housing prices has been stronger for "old" apartments than for "new" ones. Indeed, prices for over 5 years old apartments decreased by 4.8% in 2009, 5% in 2010 and 5.7% in 2011, while prices for up to 5 year old apartments declined by 2% in 2009, 4.2% in 2010 and 4.9% in 2011. This gap reflects the relatively stronger resilience of the prices for newly-built apartments that are normally sold by constructors. Moreover, households' purchasing interests during the crisis shifted towards smaller, older and, above all, more affordable properties, while the percentage of cash transactions and the share of cash in the total funding of real estate purchases have increased.

The economic situation continued to sharply depress private construction activity (which decreased by 26.5% in 2009, 23.7% in 2010, 37.7% in 2011 and 8.1% y-o-y in the first five months of 2012), as well as investment in residential properties (with a decline of 23.5% in 2009, 18% in 2010, 23.6% in 2011 and 30.9% Q1 2012). At present, the aforementioned adverse developments in consumer and business confidence delay the revival of both residential investment and economic activity in the real estate sector.

The significant increase in the taxes on real estate activities in the past three years (in the context of the efforts to boost government revenues) may have intensified the recession in this market. In addition to further fiscal pressure, repeated announcements and postponements of additional measures have prolonged uncertainties regarding the tax regime of real estate and made a potential recovery of the market even more difficult. For instance, objective values (that determine the value of real estate properties for taxation purposes) have not increased, although this measure has been announced many times in the past.

The recovery of the real estate market in Greece depends directly on an improvement in household and business expectations, a reduction in uncertainties, higher banks financing, as well as on the overall prospects of successfully dealing with the fiscal and structural problems of the domestic economy. Nominal house prices are likely to continue to decrease over the next two years, while a slow recovery is expected in 2014. It is nonetheless worth noting that the house price-to-rent ratio has been declining continuously (to stand at 74.8% of the 2007 average in Q1 2012). Thus, the house price correction has already taken place to some extent, and this ratio is anticipated to continue to contract in the coming quarters, as a result of a further decline in house prices.

[71] See the *labour force survey final data.*

Funding

The strong economic recession has affected borrowers' ability to service their outstanding mortgage debt. As a consequence, the share of non-performing loans has increased substantially since 2008, (i.e. 5% in 2008, 7.7% in 2009, 10.4% in 2010, 15.9% in 2011 and 18.5% in Q1 2012). As regards housing loans, the share was 5.3% in 2008, 7.4%, in 2009, 10% in 2010, 15% in 2011 and 17.2% in Q1 2012. The Greek mortgage market has historically featured low LTV ratios by international standards. In 2007, the average original LTV ratios rose to 80% for some lenders. However, these ratios have recently decreased (to reach 60% on average), as a result of continued tightening of lending standards.

After steadily decelerating since 2008, the volume of credit to the private sector contracted in 2011. This decrease can be partly attributed to a reduced demand for credit on the back of the economic recession, and the liquidity squeeze experienced by commercial banks, as the loss of confidence has grown noticeably, stemming from the fiscal crisis and the significant losses inflicted on banks by sovereign debt restructuring measures.

According to the Bank of Greece, the total credit to the domestic private sector contracted y-o-y by 4.3% in June 2012, down from a decrease of 1.2% in the same month of the previous year. In particular, the credit to enterprises declined by 4.1% in June 2012, and 4.4% in May 2012, while it recorded a growth in June 2011 (+0.2%). In June 2012 and June 2011, the net flows of credits to individuals and private non-profit institutions were negative, amounting to EUR 265 million and EUR 249 million respectively. As a result, the volume of credits to individuals and private non-profit institutions decreased by 4.4% in June 2012.

In 2008, interest rates on mortgage loans were above 5%, but decreased to 4.1% in 2009 and 3.8% in 2010. In 2011, they reached 4.7%. The latest data from June 2012 shows that current interest rates stand at 3.7% for new loans and 3.5% for outstanding loans with a maturity over five years. Fixed-rate loans became particularly popular at the height of the market expansion in 2007, typically offering an initial fixed-rate period before the loan's interest rate converted to a floating-rate index plus a margin. With fixed-rate loans having now largely completed their initial fixed-rate period, the market is predominantly floating-rate, thereby making loan performance increasingly susceptible to interest rate increases.

	EU27, 2011	Greece, 2011	Greece, 2010
GDP growth (%)	1.5	-6.9	-3.5
Unemployment rate (%)	9.7	17.7	12.5
Inflation (%)	3.1	3.1	4.7
% owner occupied	68.9	80.1	80.1
Residential Mortgage Loans as % GDP	51.7	36.4	35.4
Residential Mortgage Loans per capita, EUR thousand	13.01	6.93	7.12
Total value of Residential Loans, EUR million	6,534,919	78,393	80,507
Annual % house price growth	-1.1	-5.3	-4.7
Typical mortgage rate (euro area), %	3.49	4.18	3.65

Source: European Mortgage Federation, EUROSTAT, ECB, Bank of Greece, National Statistical Service of Greece

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Greece = 2010

Hungary

By Gyula Nagy, FHB Mortgage Bank, Hungary

Macroeconomic overview

Economic growth in Hungary remained in positive territory in 2011, with a real GDP growth rate of 1.7% - although the outlook remains fragile. This growth was driven mainly by exports, while domestic demand continued to contract. In 2012, GDP is expected to stagnate or slightly contract based on the figures of the first quarter of 2012, when GDP growth rate was – 1.2 %.

The unemployment rate (yearly average) in 2011 was around 11%. The rate of employment, which largely affects the demand side of the mortgage market, showed only a slight (1%) increase in 2011. Households' real income rose slightly but the different layers of the population benefited from this small growth to a different extent.

The annual inflation rate for 2011 (based on the consumer price index) was 3.9%. The Central Bank's base rate was at 7% at year-end after a gradual increase throughout the year (5.75 % at the end of 2010).

Housing and mortgage markets

As regards the Hungarian residential property market, there are specificities present. The ownership rate above 90% is among the highest in the EU. The debt of Hungarian households in relation to the GDP is not high on international scales even after the revaluation of FX loans (around 24 %). This figure in the four "Visegrad" countries (the Czech Republic, Slovakia, Poland and Hungary) is below 30 %, lower than the EU average.

Concerning mortgage lending in Hungary, 2011 was not recorded as a good year. The number of building permits and housing completions in 2011 was at a historical low. There has not been such a low yearly figure for newly built dwellings since 1960, according to the KSH (National Statistical Office). The same trend can be observed for housing transactions. The number of realized transactions (87,700 units) barely reached a third of its peak value recorded in 2003 and also represented the lowest figure since the outburst of the financial crisis in 2008. Lending in foreign currencies (EUR and CHF) is prohibited and the nominal interest rates of new mortgage loans (more than 10% in 2011 for HUF denominated loans) in Hungary are the highest in the EU. It is not surprising, therefore, that with these rates borrowers were reluctant to take new mortgage loans. Furthermore, the high non-performing loan (NPL) ratios also made banks cautious, when extending new mortgage loans.

In September 2011, the government announced its program on final repayment of foreign currency (FX) mortgage loans. This highly debated regulatory measure of the Hungarian government enabled mortgage borrowers to repay their FX loans at a non-market rate defined by the government.

A series of negotiations took place between the Government and the Hungarian Banking Association with the aim to ease the given fiscal constraints and to give a helping hand to the approximately 140-150,000 debtors who were late with their payments for a period of more than 90 days. From 1 March 2011, the prohibition of foreclosures and eviction ceased; foreclosures in line with the quotas set by the government were subsequently initiated. The establishment of the National Asset Management Agency (NAMA), the reintroduction of the social housing subsidy and the fixed exchange rate loan system were all suitable for easing the accumulated tension to some extent. There were also several negotiations between the Hungarian Banking Association and the Ministry for National Economy with the aim of setting the conditions necessary to start granting the re-designed subsidised loans by adjusting the interest rate cap of subsidised loan schemes to market conditions. Negotiations for the final agreement regarding the conditions of redesigning an efficient lending process of the new subsidised loan scheme were not finished in 2011. Therefore, the positive effects on the mortgage market from this change are not expected to materialize before the end of 2012.

Although the new regulation (early repayment scheme) helped borrowers, that were trapped in their CHF mortgage loan and had the financial background to repay their loan, it further depressed the mortgage lending market, as is shown also by the negative figure of net residential lending (i.e. repayments exceeded new loans in 2011).

As a result of the less favourable (than expected) economic growth as well as the effects of final repayments at non-market rate, property prices continued to decrease in 2011. Households partially spent their accumulated savings (including savings set aside to purchase housing units) on the repayment of loans and according to the concurrent experience of market players, sellers were prepared to accept significantly lower prices for their real estate as a consequence of the stipulated deadline set by this government programme. With an approximate 2% nominal drop compared to the previous year, the decrease of house prices has slowed down in 2011. However, experts agree that the market is waiting for a turnaround in a "hibernated" state.

Around 56 % of the outstanding mortgage loan portfolio was denominated in CHF before the start of the early repayment scheme (September 2011). The proportion decreased until the year end to 53% due to early repayments, but the total mortgage loan portfolio expressed in local currency (HUF) still increased compared to 2010 due the weakening of the HUF versus CHF.

In practice, lending in foreign currency (EUR and CHF) is prohibited by the government so new mortgage loans are issued only in HUF. HUF mortgage rates are above 10%, with average mortgage rates (APR) being between 12-14 % at the end of 2011. The high loan interest rates in Hungary are mainly a consequence of the macroeconomic situation. As the interest burden determining the budgetary position is closely linked to the costs of resources and thus to interest rates, it can be stated that the main reasons for this fact are a higher risk surcharge and higher funding costs due to the macroeconomic situation.

Funding

Covered bonds are a common form of mortgage finance in Hungary. The legal act that was introduced for Mortgage Banks and Mortgage Bonds in 1997, helped significantly to establish the covered bond market and provided support to mortgage lending activity. Covered bonds were the main source of funding for HUF-denominated mortgage loans until 2005. Due to the increase in foreign-denominated mortgage lending (EUR and mainly CHF) from 2006 onwards, the proportion of covered bonds for mortgage lending started to decline, but covered bond finance to total mortgage loan portfolio still stood at 25 % in 2011. Around 50% of the existing HUF mortgage loan portfolio is still refinanced by covered bonds issued by the three mortgage banks in Hungary.

The overall covered bond volume (both HUF-denominated and foreign-denominated) at the end of 2011 amounted to HUF 1,575 billion (around EUR 5.6 billion). Its volume decreased by about 9 % compared to the end of 2010.

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

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

The loan to deposit ratio of the banking sector in Hungary was around 150 % at the end of 2008, and it decreased to around 130 % by the end of 2011. However, it is still high in international comparison. The banking sector suffered heavy losses in 2011 (the early repayment scheme contributed strongly to these losses). Therefore, with a few exceptions, no significant increase is expected for 2012 in the mortgage lending activity of banks for the household sector. Households are also cautious in taking up new loans.

	EU27, 2011	Hungary, 2011	Hungary, 2010
GDP growth (%)	1.5	1.7	1.3
Unemployment rate (%)	9.7	10.9	11.2
Inflation (%)	3.1	3.9	4.7
% owner occupied	68.9	92.0	93.0
Residential Mortgage Loans as % GDP	51.7	22.5	25.6
Residential Mortgage Loans per capita, EUR thousand	13.01	2.28	2.48
Total value of Residential Loans, EUR million	6,534,919	22,719	24,853
Annual % house price growth	-1.1	-2.1	-5.7
Typical mortgage rate (euro area), %	3.49	12.54	9.44

Source: European Mortgage Federation, EUROSTAT, ECB, Central Bank Bank of Hungary, National Statistics Office

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Hungary = 2011

Ireland

By Anthony O'Brien, Irish Banking Federation

Macroeconomic overview

The Irish economy experienced another challenging year in 2010, although the rate of decline improved notably compared to the acute deterioration of 2009. Preliminary estimates indicate that gross domestic product (GDP) grew by 0.7% in 2011, following three successive annual decreases in GDP during the years 2008 to 2010. Growth is expected to remain modest in 2012 with the International Monetary Fund (IMF) and the European Commission (EC) forecasting GDP growth of about 0.5%. The troika of the IMF, EC and the European Central Bank (ECB) reported in April that Ireland's fiscal "consolidation efforts remain on track in 2012", with the 2011 general government deficit (excluding bank support costs) estimated at 9.4% of GDP, well within the programme ceiling of 10.6%. Unemployment remained high throughout 2011 and into 2012. Some 302,000 people were unemployed in the fourth quarter of 2011, though the rate of increase in unemployment slowed sharply in 2011. Unemployment was up 0.7 percentage points y-o-y in 2011, compared with 13.7% in 2010. The labour force continued to shrink, down 0.6% over the year ended Q4 2011, compared to a decline of 1.5% in the previous year. The unemployment rate averaged at 14.4% during 2011, having averaged 11.8% in 2009 and 13.7% in 2010.

The domestic economy continued to struggle. The volume of retail sales fell by 0.9% in 2011, having grown by 1.4% in 2010. Retail sales volumes in 2011 were less than 82% of the volume in 2007. The building and construction sector contracted by 13.5% in 2011, with output in the year at only 41% of the 2007 level.

The Consumer Price Index grew by 2.6% in 2011, the first annual increase since 2008. However, Ireland's inflation rate remained below the European average, with the EU Harmonised Index of Consumer Prices showing that inflation in Ireland (1.2%) was well below that of other European economies with the euro area experiencing inflation of 2.7% and the European Union that of 3.1%. Only Malta and Sweden had lower inflation rates. This trend has enhanced Ireland's competitiveness relative to other European jurisdictions.

The export sector, enhanced by improving competitiveness, continued to expand in 2011. Total exports (merchandise and services) grew by 4.8% compared to 2010 and with domestic demand subdued, resulted in a trade surplus of EUR 33.2 billion. Solid export growth also contributed to a current account surplus (EUR 127 million in 2011) for a second consecutive year.

Housing and mortgage markets

The housing and mortgage markets experienced another challenging year contextualised by the macroeconomic environment outlined above and funding constraints for mortgage lenders. Demand for homeloans continued to be dampened by subdued consumer sentiment as the Government continued with fiscal re-balancing measures such as expenditure cuts and changes to the tax system. Mortgage lending continued the trend to decline with the number and value of mortgages down 48% to 14,273 and EUR 2.5 billion, respectively. Home-purchasers continued to perform better than other segments with first-time buyers (FTBs) volumes down 41% and subsequent-time buyers down 35%. The average first time buyer's loan reached at an all-time low (the data goes back to 2005) of just over EUR 159,000. This is reflective of falling house prices and increased affordability.

In terms of net lending, the trend of household deleveraging continued with the total amount of residential mortgage debt outstanding, including securitisations, declining from about EUR 136 billion in December 2010 to about EUR 131 billion at the end of December 2011. Separate figures for private households, indicates that net lending (after repayments and other adjustments) fell by 2.4% in the year ended December 2011.

The rate of decline in house prices accelerated during 2011. The average price of all residential properties (houses and apartments) nationally fell by 16.7% in the year ended December 2011 (with house prices declining by 16.6%). The decline from peak (Q3 2007) for prices nationally stood at 47% by the end of 2011.

There remains considerable volume of supply on the market, with around 56,000 units available for sale. There was a further decrease in housing construction in 2010, with the number of units completed down 28% on 2010 to 10,480. The number of housing starts also fell sharply, down 32% to 4,365 for 2011.

In the rental market, there are some indications of rents stabilising, with rents nationwide some 0.7% lower in Q4 2011 than a year previously. The tightening of the rental market and the continued improvement in house purchase affordability, as well as fiscal incentives to purchase in 2012, may encourage prospective homebuyers, who have delayed purchase due to the continued decline in house prices, to enter the market.

The government sought to boost activity in the housing and mortgage markets from late 2011. It announced enhanced mortgage interest relief for home purchasers in 2012 but confirmed that no relief would be available to home purchasers who buy after 2012. All existing reliefs will be abolished from 2018.

The National Management Asset Agency (NAMA), which is the asset recovery vehicle for property development loan books of domestic lenders, agreed a pilot of its Deferred Payment Initiative whereby its aims to protect buyers from decreases of up to 20% in the value of their property over the following five years.

The difficult macroeconomic environment, and in particular the employment situation, continued to impact on the level of mortgage arrears for owner-occupied properties - the proportion of such mortgages more than 90 days in arrears increased from 5.7% at end-2010 to 9.2% one year later. The number of properties repossessed during the year rose from 363 in 2010 to 608 in 2011. Some 68% of these were surrendered or abandoned with the rest repossessed on foot of a court order. Mortgage lenders are active in assisting borrowers who experience repayment difficulties which is demonstrated by the 74,379 cases of mortgage re-structures which were in place at the end of 2011; of these cases, 36,797 (49%) were not actually in arrears.

The recommendations of the government's Mortgage Arrears and Personal Debt Group in 2010 resulted in a revision of the Central Bank of Ireland's Code of Conduct on Mortgage Arrears and enhanced protections for borrowers in arrears, such as a standardised Mortgage Arrears Resolution Process (MARP) for lenders. In 2011, the focus shifted from short-term management of arrears to long-term solutions. The government's Inter-Departmental Working Group on Mortgage Arrears assessed a range of options for lenders in dealing with sustainable mortgages while the Central Bank required lenders to develop mortgage arrears resolution strategies in 2012. In February 2012, the government also published proposed legislation on dealing with personal insolvencies that would introduce non-judicial debt settlement options for unsecured and secured debt.

The loan assets transferred from lenders had a nominal value of EUR 71.2 billion but were valued by NAMA at EUR 26.4 billion, resulting in significant losses for the participating mortgage lenders. The Irish-owned mortgage lenders have undergone significant restructuring since 2010, in line with the recapitalisation of the banks by the Irish government, which was completed in July 2011.

Most building societies in Ireland have given up their mutual status and been merged into banking groups. The government aims to wind down the Irish Bank Resolution Corporation by 2020. The remaining banking groups must meet a loan-to-deposit target of 122.5% by 2013, mainly by divesting non-core loan assets.

With strengthened capital positions and deleveraged balance sheets, it was envisaged that the domestic banking institutions would be better positioned to service the credit and savings needs of the domestic economy in the future.

NAMA approved EUR 5.8 billion in asset sales between March 2010 and September 2011. Only 24% of NAMA's loan assets were performing by September 2011.

Funding

Mortgage funding conditions remained challenging in 2011 for Irish lenders given the developments in European debt markets and the weak Irish economy. A study published by the Central Bank of Ireland in December 2011 found that domestic banks have experienced significant funding outflows of corporate deposits and wholesale debt securities since 2008, and increased their reliance of central bank funding through borrowing from the Eurosystem and Emergency Liquidity Assistance. Central bank funding peaked in February 2011 at EUR 153 billion but was reduced to EUR 109.5 billion by the end of 2011, due in part to the recapitalisation of domestic banks, bank deleveraging and wholesale funding transactions.

Competition for deposits intensified in 2011, particularly in the retail sector, with banks offering attractive rates on longer-term deposit products. Funding conditions remained adverse with no debt securities issuances to market in 2011. The level of mortgage-backed securities outstanding increased to EUR 50.2 billion by the end of 2011, while mortgage covered bonds increased to EUR 29.9 billion, with EUR 9.3 billion in new covered bond issuance during 2011.

	EU27, 2011	Ireland, 2011	Ireland, 2010
GDP growth (%)	1.5	0.7	-0.4
Unemployment rate (%)	9.7	14.4	13.7
Inflation (%)	3.1	1.2	-1.6
% owner occupied	68.9	74.5	74.5
Residential Mortgage Loans as % GDP	51.7	83.5	87.1
Residential Mortgage Loans per capita, EUR thousand	13.01	29.14	30.40
Total value of Residential Loans, EUR million	6,534,919	130,568	135,806
Annual % house price growth	-1.1	-16.7	-10.8
Typical mortgage rate (euro area), %	3.49	3.27	3.01

Source: European Mortgage Federation, EUROSTAT, ECB, Central Bank and Financial Services Authority of Ireland, Central Statistics Office, Department of the Environment, Heritage and Local Government, European Securitisation Forum, IBF/PwC Mortgage Market Profile, Ptsb/ESRI House Price Index, DAFT.ie

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Ireland = 2010

Italy

By Marco Marino, Italian Banking Association

Macroeconomic overview

The slowdown in global trade and the deterioration of the sovereign debt crisis impacted the Italian economy during 2011.

As a result, real GDP increased by only 0.4% in 2011, a slower rate compared to 2010 (1.8%). More specifically, in Q4 2011, real GDP fell by 3.0% y-o-y and by 0.7% q-o-q. This is the second consecutive decrease after that recorded in Q3 2011 (of 0.6%). In Q1 and Q2 2011, GDP recorded two slight quarterly increases, by 1.2% and 0.6% respectively. Based on latest available data in September 2011, the decrease in economic activity was fuelled, in particular, by the falls in fixed investment and government spending, of 0.8% and 0.6% respectively. Household consumption decreased by 0.2% compared to 2010 and provided negative contribution to GDP growth of 0.4%, reflecting the weakness in gross disposable income and weak labour market prospects. In this respect, the unemployment rate in Italy rose from 8.4% in 2010 to 8.9% in 2011 (but remained unchanged according to the EU-harmonised unemployment rate); the increase was more pronounced for young people however reaching 29% (27.8% in 2010). However, the Italian unemployment rate remains lower than the euro area average (10.2%).

A positive contribution to GDP growth came from exports, which increased by 1.6%, while imports decreased by 1.1%, reflecting subdued domestic demand.

The industrial production index decreased during 2011; at year-end 2011 it decreased by 1.7% compared to the same period of 2010, and in January 2012 it fell by 2.5% on December 2011.

The consumer price index rose annually by 2.9% on average in 2011 (vs. 1.6% on average in 2010), accelerating in particular over the last two months of 2011 due to the increase in indirect taxes. Core inflation - which excludes the most volatile components (energy and food) was 1.5% on average in 2010, and rose to 2.1% in 2011.

In 2011, the interest rates on loans in EUR to households for house purchases increased, standing at 4.03% in December (2.97% in December 2010).

In September 2011, in a context characterized by strong financial instabilities and deterioration of the sovereign debt markets, the Parliament approved two austerity packages and brought forward to 2013 its close-to-balance objective.

In November 2011, following the approval of the "*DDL Stabilità*" (budget bill), a new "technocrat" government took office, supported by most of the political parties.

The new government introduced some measures in order to (i) lower the public debt and reinforce Italy's commitment to meeting its budget balance objective by 2013 (DL n. 201/2011) and (ii) boost Italy's competitiveness so as to promote economic growth (DL n. 1/2012).

The measures introduced by DL n. 201/2011 were mainly a mix of tax increases and public spending cuts, and also major pension reform; the second set of measures contained in DL n. 1/2012 aimed at enhancing the growth of the Italian economy by investing in infrastructure and opening up competition in some heavily regulated economic sectors and professions. So far, the market's response has been overwhelmingly positive.

Housing and mortgage markets

According to the information disclosed by the Public Real Estate Registry Office (*Agenzia del Territorio*), in 2011 the Italian real estate market recorded a slight decrease in sales. More specifically, housing transactions amounted to approximately 598 thousand units (for a decrease of 2.2% compared to 2010). House prices slightly increased compared to 2010 (by 0.6%).

The number of residential building permits, after peaking in 2005 (with 278,602 permits), fell sharply in the subsequent three-year period, reaching 191,783 in 2008. In 2009, the number of building permits continued to decrease, reaching 141,586 units. In 2010, around 204,000 newly-built dwelling units were recorded (latest information available), down 17% on 2009 but in line with the slowdown recorded in the Italian market one year earlier.

Against this backdrop of further deterioration of the crisis and of the macroeconomic environment, outstanding residential loans continued to increase, albeit at lower rates than in previous years.

The value of outstanding residential mortgages rose from around EUR 350 billion in 2010 to more than EUR 362 billion in 2011, for an increase of 3% (net residential lending stood at EUR 10 billion) EUR). Gross residential lending decreased from 2010 to 2011 period, and went from approximately EUR 65 billion to EUR 55 billion. This performance can be explained in light of the poor macroeconomic performance and the weak demand for residential mortgage loans.

However, growth in outstanding residential mortgage loans (4.4%) continued to exceed that of the euro area (2.3%) as of end-2011.

The average loan volume remained stable (EUR 136,000EUR) compared to 2010.

The analysis of risk indicators showed signs of improvement in the first nine months of 2011 (latest information available). In particular, minor insolvencies (i.e. loans in arrears for 1 to 2 months) fell to record lows, i.e. to 2%; serious insolvencies (i.e. loans in arrears for 3 to 5 months) also decreased compared to 2009, from 1.4% to 1.2%).

In more detail, the 3-to-5-month arrears accounted for 1.1% of outstanding mortgage lending in September 2011, from 1.2% in December 2010; the 1-to-2-months arrears recorded a slight increase, standing at 2.0% (1.8% in December 2010), while the loan insolvency rate continues to decrease, standing at 3.0% in September 2011 (3.5% in 2010).

This mitigated trend reflects a combination of positive factors which affected the quality of credit such as the moratorium for households ("Household Plan", launched in 2009 by the Italian Banking Association) and also mortgage portability and renegotiation.

Under the moratorium, more than 55,000 loans were suspended up to November 2011, for the amount of EUR 7 billion outstanding debt, providing more than EUR 420 million to households in term of liquidity. The moratorium has been extended three times up to July 31st, 2012.

The mortgage portability and renegotiation options have allowed the review of households' financial plans, in particular for those who have mortgage contracts at unsustainable rates. These factors complemented more accurate lending policies which resulted in a higher rating of the credit portfolio.

Funding

In 2011, mortgage funding activities showed signs of slowdown compared to 2010.

More specifically, as of December 2011, domestic banks' deposits in Italy, including resident customer deposits and bonds, stood at EUR 2,214 billion EUR, signalling a rate of growth of only 1.3% (3.27% in December 2010).

Once broken down by its components, it can be seen that resident customer deposits fell on a yearly basis by 2.8% at year-end 2011 (they had increased by 6.6% in December 2010), while bank bonds increased by 8.4% (they had decreased by 1.5% in December 2010).

The volume of mortgage loan securitisation transactions equated to EUR 8,079 million EUR in 2011.

With regard to covered bonds, issuance in 2011 amounted to EUR 39,070 million, for a relevant increase over the previous year (equating to EUR 24,465 million).

	EU27, 2011	Italy, 2011	Italy, 2010
GDP growth (%)	1.5	0.4	1.8
Unemployment rate (%)	9.7	8.4	8.4
Inflation (%)	3.1	2.9	1.6
% owner occupied	68.9	80.0	80.0
Residential Mortgage Loans as % GDP	51.7	22.9	22.7
Residential Mortgage Loans per capita, EUR thousand	13.01	5.98	5.83
Total value of Residential Loans, EUR million	6,534,919	362,409	352,007
Annual % house price growth	-1.1	0.6	0.2
Typical mortgage rate (euro area), %	3.49	4.03	2.97

Source: EMF, Eurostat, ECB, Bank of Italy, ISTAT, Public Real Estate Registry Office

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Italy = 2008

Latvia

By Alessandro Sciamarelli, EMF

Macroeconomic overview

The Latvian economy was one of the hardest hit by the crisis in the EU. Real GDP growth recovered by 5.5% in 2011 after three consecutive years of recession, the most severe of which was in 2009 (by 17.7%), for a cumulative output loss of 16.3 percentage points since 2007. Domestic demand recovered by 10.7% and mostly contributed to GDP growth. Amongst domestic demand sub-components, gross fixed capital formation (by 24.6%) and imports (by 20.7%) provided the strongest contributions to the economic recovery.

The current account balance has continued in recent years to adjust from the huge imbalances prior to the crisis (reaching -22.4% of GDP in 2007) but after two years of surplus (8.6% of GDP in 2009 and 35% in 2010), the current account balance was slightly negative again in 2011 (by 1.2%), as a result of much stronger growth in imports than in exports.

Inflation picked up in accordance with the revived economic activity, and reached 4.2% on annual average in 2011 after being negative by 1.2% in 2010.

The labour market did not show any substantial improvement: the unemployment rate slightly decreased from the record high of 2010 (18.7%, which was thrice as much the level in 2007, i.e. 6%) to 16.1% on annual average in 2011. Employment increased by 3.4% after falling in the three previous years.

The government budget balance improved compared to 2010, as the deficit narrowed from 8.2% of GDP to 3.5%, the lowest deficit since 2008 but always above the ceiling imposed by the EU Treaties. Equally, public debt decreased on 2010 and went from 44.7% to 42.6%, which is much lower compared to many other European economies but remained high once put in an historical context: before the crisis, in 2007, Latvian debt to GDP ratio was only 9%.

Housing and mortgage markets

According to available data, the housing market in Latvia during 2011 continued to perform in line with subdued macroeconomic developments. Despite frozen residential construction activity, housing supply still outpaced demand in 2011 due to the excess housing stock that was cumulated during the booming residential cycle.

Historical data on house prices is available until 2008, when prices went down by 18.4% y-o-y, after years of spectacular annual growth rates (i.e. 60.7% in 2006) and no official data has been available since then. However, according to the latest report published by the real estate agency Ober-Haus[72], house prices in the center of Riga increased by 5.8% in 2011, a slowdown from the 12% rise observed in 2010.

The rapid expansion of Latvia's mortgage market over recent years was impressive, being fuelled by low interest rates and the entry of foreign banks into the domestic market. Outstanding mortgage lending grew annually on average by a bullish 79.4% between 1998 and 2008. As a result of the crisis, mortgage lending went into recession for the first time in 2009 by 4.6%. Recession in mortgage lending continued in 2010 with the same rate of decline as in 2009 and then gained further speed in 2011 (7.4%).

Total mortgage debt as a percentage of GDP grew extremely rapidly and went from 0.7% in 1999 to peak of 36.7% in 2009, after moving around 30% in the three previous years. In 2010, it decreased slightly to 36.2% and in 2011 it fell sharply to 30%, as a result of the pronounced fall in the value of mortgage lending.

In recent years, interest rates on mortgage loans were very sensitive due to the fact that the LTL has been pegged to the EUR. Around 40% of all mortgage loans were denominated in the domestic currency. Due to the peg pressure, when the ECB started to raise its policy rate in 2007 it provided an upward pressure on average LTV-denominated mortgage interest rates which since then remained around 10%, but sharply decreased in the following years as a result of the expansionary policy stance undertaken by the Bank of Latvia (i.e. the policy rate was cut from 6.00% in May 2007 to 3.50% in March 2010 and has been left unchanged since then). Interest rates on EUR-denominated loans decreased from 4.50% at end-2009 to 4.15% at end-2010, and then to 3.80% at year-end 2011, while interest rates on LTL-denominated housing loans were at 9.25% at end-2009, 5.81% at end-2010 and 4.90% at end-2011.

Funding

In 2010, outstanding mortgage covered bonds in Latvia were worth EUR 63 billion (they were EUR 85 billion in 2009), accounting for 1% of outstanding mortgage lending, but there was no issuance of mortgage covered bonds throughout the year. The value of outstanding covered bonds decreased by 26.1% on 2009, in line with the decline in mortgage lending. Mortgage funding in Latvia is mainly deposit and liability based.

	EU27, 2011	Latvia, 2011	Latvia, 2010
GDP growth (%)	1.5	5.5	-0.3
Unemployment rate (%)	9.7	15.4	18.7
Inflation (%)	3.1	4.2	-1.2
% owner occupied	68.9	84.1	84.1
Residential Mortgage Loans as % GDP	51.7	30.0	36.2
Residential Mortgage Loans per capita, EUR thousand	13.01	2.70	2.89
Total value of Residential Loans, EUR million	6,534,919	6,020	6,498
Annual % house price growth	-1.1	n/a	n/a
Typical mortgage rate (euro area), %	3.49	3.80	4.15[73]

Source: EMF, Eurostat, ECB, Bank of Latvia, Central Statistical Bureau of Latvia

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Latvia = 2010

[72] *Real Estate Market Report 2012*, available at http://www.ober-haus.com.

[73] Average interest rate on EUR-denominated new loans for house purchase.

Lithuania

By Jonas Grincius, AB Citadele bankas

Macroeconomic overview

In 2011, the Lithuanian economy experienced a positive GDP growth of 5.8%, which was above the expected 4% and up from 1.3% in 2010. Lithuanian exports continued to grow at a robust pace and increased by 28.8% in 2011 (33.2% in 2010). This growth was fueled by improved competiveness and increased demand opened new markets. Private consumption also expanded, as shown by the growth recorded in the retail sector, which reached 8.8% in 2011, compared to a 2.9% decline in 2010. Analysts forecast that GDP will expand by 2-3 % in 2012.

The unemployment situation softened in 2011, with the unemployment rate decreasing from 17.8% in 2010 to 14.8% in 2011. For 2012-2013, an unemployment rate of 10-13% is projected. High unemployment rates have negative demographic implications, as a considerable part of the population opts for economic emigration to countries such as the UK and Norway. As a result, the Lithuanian population decreases year after year.

The annual inflation rate in 2011 was 4.1%, above the previous year projection of 3.5%. The forecast for 2012-2013 is between 2.5% and 3%.

Government fiscal discipline continued in 2011, resulting in a low sovereign risk and a low risk of devaluation. As a consequence, the spread between the interest rates on loans in litas and euros was relatively low.

Housing and mortgage markets

The effects of the economic downturn of 2009 were still noticeable during 2011, although much weaker than in 2010. Prices for apartments were almost stable throughout the year, growing by 0.7% in the capital city and falling by between 2% and 4% in other major cities. Prices grew in the least expensive segment of the residential property, mostly in old or new economy class construction properties.

The statistical data for the construction and real estate sectors shows improving results. The majority of the new developments were located in the capital city of Vilnius, where the number of newly-built apartments expanded by 30%.

The amount of outstanding housing loans to households decreased only by 1% in 2011, down to EUR 5,866 million euros at year-end. Loan balances to households remained almost unchanged for the third consecutive year, the last positive growth rate having been 23.5% in 2008.

Total residential mortgages as a proportion of GDP were 20% in Lithuania in 2011, close to the levels recorded in 2009 and 2010.

Interest rates on new loans for house purchase fell slightly in 2011, as more banks returned to the mortgage lending business. The competitive landscape is quite fragmented as banks are offering margins ranging from 1.5% to 4%.

The weighted average interest rate on EUR denominated loans to households for house purchase was 3.75% in December 2011; the same rate was 3.46% in December 2010. Most mortgages are denominated in euros. Following austerity measures introduced by the Lithuanian Government, markets reacted positively by reducing perceived risk associated with local currency lending. At the end of 2011, the spread between litas-denominated loans and EUR-denominated loans was 14 basis points.

By the end of 2011, Bank of Lithuania approved “Regulations for Responsible Lending”, which applies to new credits issued to private persons. The rules outline limits for credit institutions regarding loan-to-value ratios and debt-to-income ratios, as well as the maximum maturity of the mortgage loan. According to these guidelines, the loan-to-value ratio cannot exceed 85%, debt-to-income has to be below 40% and the maturity cannot exceed 40 years.

Mortgage Funding

In 2011, the two major sources of mortgage funding remained parent banks of multinational banks and retail deposits. Restrained optimism about the economic outlook prevented banks from using other forms of funding. Owing to the subdued conditions of the banking market in Lithuania, it should be assumed that deposits and funds from parent banks will remain the main funding source in 2012 for the banking sector in general and mortgages in particular.

	EU27, 2011	Lithuania, 2011	Lithuania, 2010
GDP growth (%)	1.5	5.8	1.3
Unemployment rate (%)	9.7	14.8	17.8
Inflation (%)	3.1	4.1	1.2
% owner occupied	68.9	93.1	93.1
Residential Mortgage Loans as % GDP	51.7	19.3	21.7
Residential Mortgage Loans per capita, EUR thousand	13.01	1.83	1.80
Total value of Residential Loans, EUR million	6,534,919	5,934	5,983
Annual % house price growth	-1.1	n/a	n/a
Typical mortgage rate (euro area), %	3.49	3.63	3.71

Source: European Mortgage Federation, EUROSTAT, ECB, Bank of Lithuania, Statistics Lithuania

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Lithuania = 2010

Luxembourg

By Alessandro Sciamarelli, EMF

Macroeconomic overview

In 2011, real GDP growth slowed down compared to 2010 (1.6% vs 2.7%) after experiencing its first economic recession since 1981 as a result of the global financial turmoil in 2009 (by 5.3%).

Gross fixed investment, after the slump of 19.2% in 2009, picked up in 2010 and increased by 2.6% and gained further momentum in 2011 (7.7%). On the other hand, the positive contribution from exports, which had been a relevant factor behind the 2010 recovery, slowed from 4.6% to 2.9%. Final household demand provided the strongest contribution to GDP growth having increased in total by 5.9%, which was however lower than in 2010 (8.6%).

As a result of the vigorous performance of imports and the slowdown in exports, the current account balance recorded another surplus of 7.1% of GDP but lower than one year earlier (7.7%).

Inflation further accelerated during 2011 and reached 3.7%, following 2.7% in 2010 after remaining flat in 2009. The unemployment rate was stable and rose slightly from 4.6% to 4.8% remaining below the record high of 2009 (5.1%). Total employment increased by a 2.7%, which was the highest increase since 2008. Government budget balance recorded its third consecutive deficit, albeit very modest and well below the 3% ceiling imposed by the Maastricht Treaty (1.7% of GDP). Government debt slightly decreased from the record high of 2010 (18.2% vs 19.1%), but remained much lower than most other euro area economies.

Housing and mortgage markets

Contrary to what was observed in most other advanced EU economies, residential construction activity has proved resilient in Luxembourg since the onset of the crisis. After two consecutive falls in 2008 and 2009 – albeit at lower rates than most other EU15 economies – the number of building permits increased on a yearly basis by 5.3% in 2010 and then this recovery gained speed in 2011 (11.1%). New building permits reached 4,323 units, which was 12% lower than the peak of 2007. Housing completion data is available only up to 2009.

Real residential investment had recorded spectacular y-o-y growth rates in the years between 2003 and 2007 (12.3% on annual average), but dropped by 0.3% in 2008 and recovered by 1.9% in 2009. Yet, in 2010 housing investment experienced another, albeit modest, decrease of 0.7% and then recorded flat developments in 2011. Once put in historical context, however, the decline was evident, as it gradually slowed down every year from the 32% increase recorded in 2007.

On the demand side, house prices increased by 4.1% after the rise of 4.5% in 2010 thus confirming signs of a reviving housing market after the fall of 2.1% in 2009.

Outstanding mortgage lending reached EUR 20.3 billion, which represented an annual increase of 9% (i.e. same growth rate of 2010). Mortgage interest rates slightly increased from the historical low of 1.88% recorded at end-2010 and went to 2.26% at year-end 2011, thus remaining at very low levels as a result of the continued expansionary monetary policy within the euro area.

	EU27, 2011	Luxembourg, 2011	Luxembourg, 2010
GDP growth (%)	1.5	1.6	2.7
Unemployment rate (%)	9.7	4.8	4.6
Inflation (%)	3.1	3.7	2.8
% owner occupied	68.9	68.1	68.1
Residential Mortgage Loans as % GDP	51.7	47.3	46.2
Residential Mortgage Loans per capita, EUR thousand	13.01	39.57	37.03
Total value of Residential Loans, EUR million	6,534,919	20,255	18,591
Annual % house price growth	-1.1	4.1	4.5
Typical mortgage rate (euro area), %	3.49	2.26	1.88

Source: EMF, Eurostat, ECB, Central Bank of Luxembourg, Statistics Luxembourg

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Luxembourg = 2010

Malta

By Peter Sant, Bank of Valletta

Macroeconomic overview

At 2.1%, real GDP growth in Malta remained relatively robust in 2011, outperforming the average for the euro area (1.5%) and stood at EUR 6.4 billion. However, real GDP registered two q-o-q drops of 0.7% and 0.1% in Q4 2011 and Q1 2012 respectively, partly as a result of the losses recorded by the state energy operator. In Q2 2012, real GDP growth was noticeably above the euro area average, at 0.9%. The average unemployment rate was 4.2% in 2011 and went above 4.3% in January 2012 and February 2012. On an annual basis, Malta's average annual inflation rate was 1.3% in 2011. In the first half of 2012, the inflation rate was slightly above the average for the euro area. Malta's interest rates reflected the variations observed in the rest of the euro area.

In 2011, the general Government deficit was 2.7% of GDP, slightly better than in 2010 (3.7%), partly because of higher one-off revenues from the extension of the 2010 tax amnesty. The Maltese Government's revenue amounted to EUR 2.64 billion, against a total expenditure of EUR 2.86 billion, leading to a deficit of EUR 218 million, down from EUR 279 million in 2010. The ongoing restructuring of Air Malta and the rise in subsidies to the national energy company (notably for the purchase of petroleum) are expected to put some pressure on government finances. General government gross debt increased by almost 10 pps of GDP between 2008 and 2011, to 72% of GDP, and is forecast to increase to 75.2% in 2013. More than 98% of this debt, which amounted to EUR 4,481 billion, is financed through the sale of government bonds and treasury bills. and only 1,7% is financed by foreign multilateral debt.

Housing and mortgage markets

During 2011, the Malta Environment and Planning Authority approved 3,955 development permits for dwellings, which is the lowest figure on record. The decline from the number of approvals observed in 2007 nationally stood at 65.1%. In absolute terms, the number of permits issued in 2011, by type, were: 3,276 apartments (3,736 in 2010), 401 maisonettes (375 in 2010), 191 terraced houses (227 in 2010) and 87 pertaining to "other" (106 in 2010). In 2011, the Maltese authorities issued 994 permits for the purchase of properties by foreigners, i.e. 108 more than in 2010. As a result, the total value of the properties purchased by foreigners increased from EUR 147 million in 2010 to 185 million in 2011.

There were over 53,000 vacant properties in Malta in 2011, having a combined market value of over EUR 7 billion. According to more recent data from the census carried out in 2011, the number of registered vacant properties is expected to increase further.

At any one point in time, there are over 10,000 property units for sale. According to the Central Bank of Malta's Property Prices index, the prices of apartments remained stable in 2011, whilst the prices for maisonettes rose slightly and those for terraced houses decreased somewhat. Gross residential lending in 2011 amounted to EUR 226.9 million, up from, EUR 208.2 in 2010. The representative interest rate on new mortgage loans was 3.9%.

In 2012, the Maltese authorities introduced a number of incentives aimed at supporting the restoration and the conservation of buildings, as well as properties in Urban Conservation Areas. Firstly, in order to consolidate home ownership, there is an exemption from duty on documents for transfer between heirs. This concession is available until the end of 2013. Secondly, a scheme, including different tax deductions, will be launched to support private individuals or companies investing in the restoration of properties. Finally, in 2012 the Maltese government is expected to implement an interest subsidy scheme for first time buyers.

Funding

Maltese banks continue to fund their loans mostly through retail deposits, having a loan to deposit ratio of 70%. There is a small number of operators that fund their lending through interbank market operations.

	EU27, 2011	Malta, 2011	Malta, 2010
GDP growth (%)	1.5	2.1	2.3
Unemployment rate (%)	9.7	6.5	6.9
Inflation (%)	3.1	2.4	2.0
% owner occupied	68.9	80.1	80.1
Residential Mortgage Loans as % GDP	51.7	45.2	43.8
Residential Mortgage Loans per capita, EUR thousand	13.01	6.93	6.48
Total value of Residential Loans, EUR million	6,534,919	2.893	2.684
Annual % house price growth	-1.1	1.8	1.1
Typical mortgage rate (euro area), %	3.49	3.90	3.46

Source: EMF, Eurostat, ECB, Central Bank of Malta, MEPA (Malta Environment and Planning Authority)

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Malta = 2009

The Netherlands

By Nico de Vries and Dimitry Fleming, ING Bank

Macroeconomic overview

In 2011, Dutch real GDP expanded by 1.1%, slightly slower than in 2010 (1.6%), but much better than in 2009 (-3.7%). The positive growth figure was, however, largely due to a significant real GDP growth at the beginning of the year, as real GDP increased q-o-q by 0.6% in Q1 2011 and by 1% in the first half of the year compared to the previous half. In the second half of 2011, the economy re-entered recession (-0.7%) as the pick-up in exports – up until then the main engine of growth – grinded to a halt and domestic demand failed to take over. Indeed, with households continuing to worry about the labour market, falling purchasing power, lower house prices and the prospect of more austerity measures, private consumption contracted by 1% in 2011. Meanwhile, gross fixed capital formation posted a solid increase, but that was attributable to the soft winter weather, which boosted construction activity. Confronted with lower order intake and overcapacity, capital spending in other sectors remained depressed.

With the economy back into recession, unemployment headed higher in the second half of the year. The harmonized unemployment rate rose from 4.3% at the start of the year to 4.9% at the end. Consumer price inflation picked up considerably in 2011, to 2.3% from 1.3% in 2010. The increase was largely driven by higher energy prices. Core inflation – total inflation excluding food and energy – remained nearly stable at 1.3%. The government's fiscal deficit improved to 4.2% of GDP, but remained above the official EU target of 3%, warranting further austerity measures.

	EU27, 2011	Netherlands, 2011	Netherlands, 2010
GDP growth (%)	1.5	1.1	1.6
Unemployment rate (%)	9.7	4.4	4.5
Inflation (%)	3.1	2.3	1.3
% owner occupied	68.9	55.5	55.5
Residential Mortgage Loans as % GDP	51.7	106.2	106.5
Residential Mortgage Loans per capita, EUR thousand	13.01	38.40	37.80
Total value of Residential Loans, EUR million	6,534,919	639,558	626,580
Annual % house price growth	-1.1	-3.4	-2.0
Typical mortgage rate (euro area), %	3.49	4.07	4.57

Source: European Mortgage Federation, EUROSTAT, ECB, Dutch National Bank, CBS (National Insitute of Statistics)

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Netherlands = 2009

Housing and mortgage markets

In 2011, the volume of transactions on the Dutch housing market for existing owner-occupied homes reached the same level as was achieved in the two previous years. The decline in house prices stood at 3.4% in 2011, compared to 2% in 2010. Consumer confidence dropped in the second half of the year, due to the disturbing developments in Greece and Spain, combined with the dropping stock markets.

To stimulate the housing market, the Dutch government decided to continue the lowered rate of the "Transfer Tax". On the other hand, new legislation limits the possibilities for new mortgages. Starting in August, the interest-only part is limited to a maximum of 50% of a new mortgage. In addition, the mortgage debt is limited to 106% of the market value of the property. These measures did not generate results in 2011, but are to be expected to lead to a healthier mortgage market in the future.

The housing market in the Netherlands keeps deteriorating, on the back of three effects:

- The lack of newcomers, since, despite decreasing house prices, affordability did not increase (This paradox is mainly due to the austerity measures).
- The reluctance of many potential sellers to adjust their prices to current market conditions.
- The reluctance to buy because of the risk of further drop in house prices.

Nevertheless, two major phenomena prevent house prices from collapsing. The first concerns the chronic lack of housing supply, since there was no "residential construction bubble" (which other EU countries experienced in the course of the 2000s) and residential construction has declined over the last few years. The second is related to the relatively low harmonized unemployment rate. As a result, Dutch home owners still can afford to pay their mortgages.

Poland

By Agnieszka Nierodka, Mortgage Credit Foundation, and Jacek Ryszewski, BRE Bank Hipoteczny

Macroeconomic overview

In 2011, the Polish economy experienced a relative slowdown. Despite an increase of 4.3% in real GDP (compared to 3,8% in 2010), economic growth slowed down every quarter. The strongest contribution to GDP growth came from domestic demand, which increased by 3.8% in 2011. Construction was the fastest growing economic sector.

The unemployment rate in Poland was still relatively high (9.7% on yearly average in 2011), but showed signs of decrease. The acceleration in inflation rate caused some concern, the annual increase in HICP was 3.9% in 2011 (2.7% in 2010), which was the highest rate since 2001. Both inflation rate and labour market conditions are likely to seriously affect the mortgage lending in 2012.

	EU27, 2011	Poland, 2011	Poland, 2010
GDP growth (%)	1.5	4.3	3.8
Unemployment rate (%)	9.7	9.7	9.6
Inflation (%)	3.1	3.9	2.7
% owner occupied	68.9	81.3	81.3
Residential Mortgage Loans as % GDP	51.7	19.6	19.1
Residential Mortgage Loans per capita, EUR thousand	13.01	1.90	1.77
Total value of Residential Loans, EUR million	6,534,919	72,501	67,669
Annual % house price growth	-1.1	n/a	4.2
Typical mortgage rate (euro area), %	3.49	7.00	6.58

Source: EMF, EUROSTAT, ECB, National Bank of Poland, Central Statistical Office

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Poland = 2010

Housing and mortgage markets

The number of building permits issued in 2011 amounted to around 184,000 units (representing an increase of 11% in comparison to 2010). More than 131,000 dwellings were completed in 2011 and about 162,000 were under construction (i.e. a decrease of 3% and increase 2% y-o-y respectively).

Property prices remained almost unchanged in 2011, even though slight decreases were recorded in a few regional markets. This trend is expected to continue in 2012, as dwellings are hardly affordable at current prices, i.e. the number of square metres available for an average monthly salary amounts to 0.5 to 0.6.

At the end of 2011, there were over 1,630,000 residential mortgage loan contracts outstanding. At the end of the year, outstanding residential debt exceeded PLN 320 billion (EUR 72.5 billion). New lending in 2011 was mainly PLN-denominated (79%); as regards EUR-denominated (14%) and CHF-denominated loans (7%) banks imposed tighter lending criteria.

During 2010, all banks slightly tightened their lending policies and introduced more severe restrictions at the end of the year. Loan-to-Value (LTV) criteria and collateral requirements were particularly tightened. Most banks no longer offered foreign currency-denominated loans and imposed stricter principles for creditworthiness assessment, due to the implementation of the “Recommendation S”. Margins on housing loans were slightly raised and the maximum loan maturity was lowered.

Funding

Mortgage funding in Poland remains mainly deposit-based. The total value of new mortgage covered bonds issuance in 2011 amounted to PLN 1,200 million (EUR 291 million), almost twice as much compared to 2010 value. No securitisation transactions were concluded on the Polish mortgage market.

Portugal

By Maria Lúcia Bica, Caixa Economica Montepio Geral

Macroeconomic overview

The year 2011 was marked by the request for financial assistance from international bodies in Q2 2011, as a consequence of deteriorating conditions of funding markets due to the outbreak of the sovereign debt crisis in the euro area.

The Financial Assistance Program for Portugal agreed with the European Commission (EC), the International Monetary Fund (IMF) and the European Central Bank (ECB) guaranteed the financing of the Portuguese economy for the period from 2011 to 2014, and required the implementation of tight measures in order to achieve a structural correction of macroeconomic imbalances (both in public finances and in the current account). In addition, it required the preparation and implementation of structural reforms which are capable to offset the adverse factors that limit the economic growth of the country up to its potential.

Under such programme, the banking sector is required to undergo a deleveraging process as well as to achieve higher solvency levels.

Against this background, the Portuguese economy recorded a contraction throughout 2011, mirroring an adjustment of public and private sector balance sheets, notwithstanding robust growth in exports. GDP decreased by 1.4% in 2011 (against a growth of 1.4% in 2010, mainly due to the fall in domestic demand, which coupled with a significant decline in external borrowing requirements.

The recession of the Portuguese economy was reflected in a pronounced fall in employment and an increase in the unemployment rate, which reached its record high to a historical maximum of 12.9% in 2011 (12% in 2010). The inflation rate accelerated by 2.2 percentage points compared to 2010 and was 3.6% on yearly average in 2011 against 1.4% one year earlier.

Additionally, the six-month Euribor, which is the main reference rate for housing loans to households, also increased to 1.62% at year-end 2011 (against 1.23% at year-end 2010).

Housing and mortgage markets

The downward trend in the outstanding amount of residential loans is clearly a reflection of the slowdown in the housing market. In 2011, outstanding residential loans decreased for the first time on record (by 0.5%). The value of new residential loans has also reached its record low, equating to only EUR4,9 billion, corresponding to the biggest decrease y-o-y, of 52.0%.

The main reasons behind this performance are the weakness of the housing markets in terms of activity and expectations. Falling housing demand, due to the weak macroeconomic conditions of the country, higher unemployment rate, less disposable income, higher (and more volatile) interest rates all contributed to damper mortgage demand. In addition, banks tightened their lending criteria (as required in the banking sector's deleveraging plan).

Subdued macroeconomic and social conditions impacted both property purchase and rental markets, as a result of higher joblessness preventing from taking out a mortgage and severely limiting housing affordability. Thus, both owner occupied and privately-rented dwellings decreased in 2011 vis-à-vis 2001 figures.

Falling housing demand drove house prices down, both for the new and existing dwelling segments. As a result, in 2011 the house price index for all dwellings decreased for the first time on record on a y-o-y basis, albeit by only 0.2%. On the other hand, the construction cost continued to increase (by 1.5% on a yearly basis) as a result of rising costs of building materials, equipment and energy, as well as of higher taxation on transactions.

Due to rising construction costs, depressed household confidence and low expectations for the housing market, new housing completions and new building permits decreased to their record lows.

A structural reform of the economy is also crucial to promote competitiveness and growth on a sustainable basis, by improving competition in the non-tradable sectors deleveraging the mortgage market and enhancing employment.

Funding

As normal access to international funding markets became almost impossible, it became necessary to call for external financial assistance; as a consequence, there were no longer the conditions for funding mortgages by using covered bonds.

In 2011, there was an increase of the outstanding mortgage covered bonds, reflecting the larger 2010 issued amounts, despite the 27.3% y-o-y decrease of new issues of mortgage bonds.

The ECB has, on the other hand, ensured its regular financial support to the domestic banking systems, also by adopting non-conventional monetary policy measures. Customer deposits have then taken the role of main funding source.

	EU27, 2011	Portugal, 2011	Portugal, 2010
GDP growth (%)	1.5	-1.4	1.4
Unemployment rate (%)	9.7	12.9	12.0
Inflation (%)	3.1	3.6	1.4
% owner occupied	68.9	74.9	74.9
Residential Mortgage Loans as % GDP	51.7	66.6	66.3
Residential Mortgage Loans per capita, EUR thousand	13.01	10.71	10.77
Total value of Residential Loans, EUR million	6,534,919	113,926	114,515
Annual % house price growth	-1.1	-0.2	1.8
Typical mortgage rate (euro area), %	3.49	4.25	2.96

Source: EMF, Eurostat, ECB, Bank of Portugal, National Statistics Institute, Confidencial Imobiliário

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Portugal = 2010

Romania

By Stefan Dina, Romanian Banking Association

Macroeconomic overview

After two years of economic recession, real GDP grew by 2.5% in 2011, on the back of a robust increase in industrial output and a very good agricultural harvest. Taking into account that the uncertainties regarding the solving of the sovereign debt crisis in the euro area remained high, real GDP was forecasted to increase by between 1.5 and 2% in 2012, depending on the growth in domestic demand and a better absorption of the EU funds. In 2011, the government hit its deficit target for the general consolidated budget (i.e. 4.4% of the GDP), while the unemployment rate contracted by 0.3% compared to the previous year, standing at 7%. According to the European Commission, HICP inflation fell sharply to 3.2% in December 2011, close to the mid-point of the national central bank's (NBR's) target range of 3.0% ± 1 pp. set for end-2011, amid a favourable VAT-related base effect and easing food prices.

As the annual inflation rate stood at its lowest level in the last 20 years, the policy rate was cut several times by the NBR, to reach 5.25% in March 2012[74]. The reserve requirement ratios applicable to credit institutions' liabilities stand at 15% for domestic currency loans and 20% for foreign currency loans.

Housing and mortgage markets

At end-2011, the home ownership rate stood at 97.7%. In 2011, the number of dwellings completed was 45,419 units, corresponding to 3,381 units less than the previous year. The number of residential building permits issued in 2011 was 47,579, up from 42,026 in 2010. The number of real estate transactions increased in 2011, to reach 371,569.

As regards the evolution of house prices, according to some unofficial statistics and analysis[75], by end-2011, house prices decreased to their lowest level in absolute terms for the last four years, namely EUR 991 per square meter. This figure is 4.1% lower than in December 2010, when the price per square meter was EUR 1,033.

In 2011, non-government credit rose by 6.6% (3.3% in real terms) compared to 2010. While domestic currency non-government credit expanded by 5.6%, foreign currency non-government credit grew by 7.2%. In 2011, admittedly a pickup in corporate lending was registered. However, the expansion was rather limited, owing to the slow growth in demand for loans. The household segment was supported mainly by the «Prima casă» ('First Home') programme, which fosters the purchase or construction of residential housing units financed by bank loans, while half of the default risk is taken over by the state.

The proportion of outstanding mortgage loans (out of total outstanding loans, excluding outstanding loans to the central government) increased in 2011, to about 15%. The amount of outstanding mortgage loans increased by a robust 13.1 % in 2011, to reach RON 32,832 billion (i.e. 7.6 EUR billion), while it was 29 billion (i.e. 6.8 billion) in 2010. However, this volume represented only 5.5% of GDP by end-2011.

The average interest rate on EUR-denominated new mortgage loans at end-2011 did not significantly change compared to the same period of the previous year (5.61% in December 2011 against 5.23% in December 2010). Interest rate developments were strongly influenced by the government's programme for first-time buyers, which was launched in 2009 and extended throughout 2011. Through this scheme, the government imposed a maximum margin on mortgage loans to all organisations which joined the initiative.

Lending standards for mortgage loans became more restrictive, on the back of the NBR's prudential decisions. One of the main decisions was to include, in banks' internal norms, the requirements of Regulation 24/2011 on loans for individuals. This regulation sets forth limits regarding the value of mortgage loans, which depend on the value of the collateral (lien on property) and the loan currency. According to the regulation, for the loans denominated in foreign currency or for the loans indexed to the exchange rate of a foreign currency, the value of a mortgage loan cannot exceed 80% of the value of the collateral (lien on property), with the provision that the debtor has eligible revenues denominated in or indexed to the loan currency. As regards a debtor who does not earn eligible revenues denominated in or indexed to the mortgage loan currency, the loan to the value of the collateral (lien on property) ratio cannot exceed 75% for euro-denominated loans or for loans indexed to the euro exchange rate. This ratio is reduced to 60% for the loans denominated in other foreign currencies or indexed to the exchange rate of other foreign currencies.

The average value of the LTV ratio for the new mortgage loans granted in 2011 stood at 77.9%. Considering the entire portfolio, the LTV ratio increased as well, from 78% to 80%. The demand for new mortgage loans to purchase housing units and land contracted in Q1 2012 was expected to decrease again in Q2 2012[76].

Funding

As in previous years, over 90% of the mortgage loans market was foreign currency-denominated. The interest rates applied to mortgage loans denominated in foreign currency were lower than the interest rates on RON-denominated mortgage loans. Therefore, borrowers opted for foreign currency-denominated mortgage loans, so as to access larger amounts of mortgage credit. Most mortgage funding in 2011 was based on deposits and private financial institutions.

The banking community of Romania has initiated steps to raise the awareness of the authorities regarding the need to align the legal and institutional framework, so as to allow the issuance of mortgage-backed bonds. This could help raise resources with longer maturities and at lower costs. Romania is the only country in the EU that does not have such an issuance set forth by law, although the outstanding amount of mortgage loans of about EUR 7.8 billion is above the amount recorded in several countries where, paradoxically, the issuance of mortgage-backed bonds is allowed.

[74] The policy rate stood at 6.25% between May 2010 and November 2011.

[75] See, for example, www.imobiliare.ro.

[76] See the poll published in the first half of 2012 by the National Bank of Romania on lending.

	EU27, 2011	Romania, 2011	Romania, 2010
GDP growth (%)	1.5	2,5	-1.6
Unemployment rate (%)	9.7	7.0	7.3
Inflation (%)	3.1	5.8	6.1
% owner occupied	68.9	97.5	97.7
Residential Mortgage Loans as % GDP	51.7	5.5	5.4
Residential Mortgage Loans per capita, EUR thousand	13.01	0.35	0.32
Total value of Residential Loans, EUR million	6,534,919	7.600	6.800
Annual % house price growth	-1.1	n/a	n/a
Typical mortgage rate (euro area), %	3.49	5.61	5.23

Source: European Mortgage Federation, EUROSTAT, ECB, Bank of Romania, National Institute of Statistics

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Romania = 2010

Slovakia[77]

By Miroslava Mizerakova, Hypocentrum Slovakia a.s.

Macroeconomic overview

The Slovak economy remained strong in 2011, and grew relatively sharply by the end of the year. Annual real GDP growth reached 3.3% in 2011, compared to 4.2% in 2010. In 2011, external demand was the main driver of the economic growth.

After declining in 2009 and 2010, employment increased in 2011. The unemployment rate remained at a high level, although it declined in comparison with the previous year. The number of unemployed fell y-o-y by 5.4% in 2011, contributing to a decrease in the unemployment rate from 14.4% in 2010 to 13.5% in 2011.

The HICP inflation stood at 4.6% in December 2011, which was 3.3 pps higher than in December 2010. On an annual basis, Slovakia's average annual inflation rate increased from 0.7% in 2010 to 4.1% in 2011.

The interest rates on new loans to households ranged from 3.69% to 6.57% for loans with fixed rates between 1 and 5 years of maturity, and from 3.81% to 7.99% for loans with rates fixed for maturities between 5 and 10 years.

Housing and mortgage markets

The total home ownership rate remained quite high (i.e. around 90%), but it was stabilized by the construction of municipal apartments for renting.

The number of housing starts was 12,740, 14,608 new dwellings were completed, down from 17,076 in 2010, and unfinished dwellings were 64,734 at the end of 2011. Among the completed dwellings, 8,763 were family houses (i.e. 60%).

The average price per square meter of existing dwellings slightly decreased from EUR 1,291 in 2010 to EUR 1,236 in 2011. The 2011 level is comparable to 2007.

The growth in lending to households increased very moderately in the first half of 2011, and then slowed marginally in the second half of the year, amid concerns about future developments. Both consumer loans and housing loans recorded lower growth. Throughout the year, lending activity was supported by falling property prices and relatively low interest rates. The pass-through from interbank interest rates to retail interest rates occurred mainly in the first half of 2011, when retail rates increased. During this period, the spread between the average interest rates on housing loans in Slovakia and in the rest of the euro area widened. The situation persisted in the second half of 2011 as well. On the other hand, the adverse situation in the labour market may have had a dampening effect on demand for new loans.

The amount of outstanding housing loans as of December 2011 was EUR 11,751 billion, with an average interest rate 5.19 %. In 2011, the ratio of housing loans to real GDP remained one of the lowest in the euro area, at about 24%. This is comparable with other Central European countries with similar historical developments and average wages. The Slovak interest rates on housing loans were still among the highest in the euro area.

Banks in Slovakia are allowed to offer LTV ratios up to 100%. The maximum LTV ratio is likely to be lower in regions where banks consider property market to be more risky. Generally, banks give priority to clients who can finance at least 30% of their investment. Clients usually take mortgages with LTV ratios of 70-85%.

In 2011, the default rate was approximately 5.5%.

The Slovak Parliament adopted a new amendment to the Slovak Banking Act, which obliged banks to announce a change in the interest rate more than 2 months prior to the change. In addition, clients must be informed of the detailed structure of their interest rates (i.e. the base rate and the bank's margin). This new legislation aims at facilitating the refinancing of debts and the transfer of a mortgage to another bank. As such, clients gradually become more interested in options for lower monthly repayments and can compare interest rates of banks more effectively.

Young mortgage debtors continued to receive governmental support through the programme called "state subsidy for young mortgage debtors (i.e. their mortgages were decreased by 3%)". This programme was implemented in 2007. Clients are allowed to use it for only one mortgage and during the first 5 years of loan repayment.

Funding

Banks increased their interest rates on long-term deposits mainly towards the end of the year, resulting in a rising stock of these deposits. Banks issued fewer debt securities, and the demand for deposits continued to increase, to the detriment of money market funds. In line with the previous year, households made the largest contribution to private sector deposit growth. In a context of uncertainties and weak consumer sentiment, private consumption dropped by 0.4% in 2011 and the saving rate of households remained above 10%. The reduction of the key ECB rates later in the year supported the banking sector, but did not lead to any significant increase in new lending. In fact, lending growth slowed in the last quarter of 2011, as the sovereign debt crisis escalated and credit standards were tightened.

	EU27, 2011	Slovakia, 2011	Slovakia, 2010
GDP growth (%)	1.5	3.3	4.2
Unemployment rate (%)	9.7	13.5	14.4
Inflation (%)	3.1	4.1	0.7
% owner occupied	68.9	89.5	85.5
Residential Mortgage Loans as % GDP	51.7	17.8	16.5
Residential Mortgage Loans per capita, EUR thousand	13.01	2.16	2.00
Total value of Residential Loans, EUR million	6,534,919	11,751	10,849
Annual % house price growth	-1.1	n/a	-3.9
Typical mortgage rate (euro area), %	3.49	5.27	5.04

Source: EMF, Eurostat, ECB, Federal Reserve, National Bank of Slovakia, Slovak Statistical Office

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Slovakia = 2011

[77] For the data, see National Bank of Slovakia, Slovak Statistical Office, Ministry of Transportation, Construction and Regional Development of the Slovak Republic

Slovenia

By Dr. Andreja Cirman, University of Ljubljana, Faculty of Economics

Macroeconomic overview

After a deep recession in 2009 (i.e. -8%), owing to the global crisis, and a mild recovery in 2010 (i.e. +1.4%), economic activity re-entered recession in the second half of 2011, under pressure from weak European economies. On an annual basis, real GDP increased by 0.6% in 2011, on the back of a 0.9% growth in private consumption and a positive contribution from net exports. However, a sharp decline was recorded in gross fixed capital formation, amid the global uncertainties, the high indebtedness of non-financial corporate sector and higher restrictions on access to finance. In addition, some other factors have an impact on economic activity and will probably cause a decrease in real GDP in 2012: (1) the adverse situation on the international financial markets (high dependence on the international financial markets and the downgrades of the sovereign debt and several banks); (2) low capital adequacy ratio of the Slovenian banking system, along with an increase in the proportion of bad investments; (3) a lack of competitiveness in domestic business environment and slow pace of the structural reforms[78].

The average inflation of the HICP stood at 1.8% in 2011. The unemployment rate has increased since 2008, up to 8.2% in 2011, and was projected to reach 9.1% in 2012. In Q4 2011, it stood at 8.7%[79].

Housing and mortgage markets

At the end of 2011, there were about 850,000 dwellings in Slovenia. Eurostat SILC data revealed that the home ownership ratio was 93.2%. The share of non-profit rental housing and private rented accommodation was low and mostly concentrated in larger towns.

Housing construction has been constantly increasing since 2000 and peaked in 2008, when almost 10,000 new dwellings were completed. However, after 2008, housing construction activity decreased almost constantly and hit its lowest level in 2011, with only 5,467 units completed. The decrease was also apparent in the number of building permits for new construction, contracting from the peak of 9,500 housing units in 2007 to 3,300 in 2011. This will result in a substantially lower housing supply in the coming years, and might be a source of pressure on housing prices in the future.

The overall liquidity of the secondary mortgage market has marginally deteriorated in comparison to 2011. In 2011, the number of transactions in the real estate market was 3% below 2010 but still about a third above 2009, when the crisis on the real estate market was at its peak. The largest decrease in the number of transactions was in the building segment, at -14%. Uncertainty mostly prevailed on the market of new constructed housing, where the lowest turnover in the last five years was recorded[80]. According to the Statistical Office of the Republic of Slovenia, the prices of existing housing in Slovenia rose slightly in 2011, and reached a y-o-y growth of 12.1% in Q4 2011, while prices of new buildings decreased by 2.4% in the same period.

Household's demand for housing loans declined in 2011, contributing to a 25% decline in the volume of new housing loans. In line with the overall euro area, demand declined sharply in Q3 2011. The low consumer confidence and the use of other sources of finance were among the main reasons cited by the banks[81]. In contrast to the banks in the euro area, Slovenian banks did not tighten their credit standards for housing loans. The average LTV ratio stood at 48% in October 2011. 80% of secured mortgage loans were secured by another mortgage loan.

Outstanding housing loans accounted for 14.5% of GDP in 2011 compared to 13.7% in 2010. About 95% of the new housing loans were variable rate loans, predominantly referenced to the EURIBOR[82]. The average maturity of housing loans has continually increased, reaching 15.9 years in February 2011. 52% of new loans in 2011 were loans with a maturity of more than 20 years.

The spread on Slovenian housing loans over the euro area housing loans has remained stable since 2009 at the level of 0.5 percentage point. On average, the spread on housing loans offered by foreign owned banks vis-à-vis domestic banks is 0.2 percentage point[83]. On the back of reduced credit ratings and consequently more expensive cost of funds, interest rates on housing loans are expected to increase in the future. Risks in the Slovenian banking system increased during the first three quarters of 2011, as a result of the continuing increase in credit risk, income risk and refinancing risk[84]. The share of classified claims to non-financial institutions settled more than 90 days in arrears was very low with households, but is likely to increase in the future, if the economic crisis deepens.

The Financial Stability Review of the Bank of Slovenia reports that the ratio of debt to disposable income of Slovenian households was 47%, which is significantly lower than the overall euro area figure of almost 100%. However, households in Slovenia have significantly less net financial assets, and thus a significantly smaller "safety net" in the event of difficulties in repaying their debt. The house prices to household income ratio has increased in 2011, showing better affordability. Nevertheless, once the increase in interest rates on housing loans is taken into account, this affordability slightly deteriorated.

Funding

The mortgage industry in Slovenia is predominantly a universal bank segment. Although legislation allows banks to issue mortgage backed securities, no securitisation of residential mortgages has taken place yet. Before the financial and economic crisis, banks increased funding in the rest of the world so as to fuel their lending activity, but the situation changed afterwards. In 2011, the dependence of banks on foreign funding increased to 39% of GDP, owing to the inadequate level of deposits and insufficient bank capital. 2011 was characterised by the continuation of debt repayments to the rest of the world. Restrictions on the funding side have also resulted in reduced lending to non-banking sectors. By the end of 2011, the cost of funds for banks started to increase, due to the intensifying competition for domestic deposits and the downgrades of the sovereign debt and several banks.

The households' savings rate was above the EU-27 average over the period 2002-2010[85] and reached 15.3% in 2010[86]

[78] See (Stability of Slovenian Banking System Report 2011, 2012)

[79] See the ILO methodology, BS Monthly Bulletin 2012.

[80] According to survey results.

[81] See the Stability of Slovenian Banking System Report 2011, 2012

[82] See Financial Stability Review 2011, 2012

[83] See Financial Stability Review 2011, 2012

[84] See Stability of Slovenian Banking System Report 2011, 2012

[85] See Statistical office of the Republic of Slovenia, 2011

[86] For 2011, the data is not available yet.

	EU27, 2011	Slovenia, 2011	Slovenia, 2010
GDP growth (%)	1.5	0.6	1.4
Unemployment rate (%)	9.7	8.2	7.3
Inflation (%)	3.1	2.1	2.1
% owner occupied	68.9	78.1	78.1
Residential Mortgage Loans as % GDP	51.7	14.5	13.7
Residential Mortgage Loans per capita, EUR thousand	13.01	2.52	2.37
Total value of Residential Loans, EUR million	6,534,919	5,164	4,844
Annual % house price growth	-1.1	n/a	2.8
Typical mortgage rate (euro area), %	3.49	4.03	3.21

Source: European Mortgage Federation, EUROSTAT, ECB, Bank of Slovenia, Statistical Office of Slovenia, The Surveying and Mapping Authority of the Republic of Slovenia

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Slovenia = 2009

Spain

By Irene Peña Cuenca, Spanish Mortgage Association

Macroeconomic overview

The fragile recovery of the Spanish economy experienced in 2010 came to a halt in 2011 due to the outbreak of the sovereign debt crisis in some euro area countries, including Spain. The impact of the crisis sharply increased the sovereign yield spreads and credit risk, thus affecting financial institutions' liquidity and consumer confidence. Stock markets also experienced great variability, and at the end of the year the IBEX 35 index recorded a decrease of 13%.

In real terms, GDP ended the year with a slight positive growth of 0.4% on 2010. In quarterly terms, however, GDP contracted in Q4 2011 by 0.5% and the Spanish economy officially went into recession in Q1 2012 as a further quarterly decrease 0.3% was recorded.

The main factor behind this adjustment was the slowdown in domestic demand (especially the components of public expenditure and construction investment), while the contribution of net external demand to GDP growth continued to be positive.

In this context, consumer prices increased at a slower rate in 2011. The consumer price index recorded at year-end an annual growth of 2.4%, i.e, 0.3 percentage points below inflation in the euro area. A similar trend was observed in the first months of 2012, widening the inflation differential with the euro area.

In this context, poor economic activity resulted in negative labour market developments. At the end of the year 2011, the unemployment rate reached 22.8% (vs.20.3% in 2010).

Concerning legislative developments, the downturns in European financial markets and increasing uncertainty forced the incoming government (i.e. in Spain general elections were held in November 2011) to undertake a package of reforms in order to restore confidence in the markets. These reforms mainly focused on the three following areas:

- Correction of public debt and deficit: budgetary stability principles were included in the Constitution and considerable efforts were put in place on the fiscal and on the public expenditure side.
- Reform of the labour market (which was approved in February 2012), aiming at increasing flexibility and reducing lay-off costs.
- Restructuring of the financial system, by reducing the number of financial institutions, increasing provisioning and core capital requirements and requiring institutions to disclose more information on their exposures to the real estate sector.

Housing and mortgage markets

In 2011, housing activity remained at very low levels. On the supply side, the number of housing completions –decreased by 35%, down to 167,914 units at year-end. The number of new housing starts over the year decreased to 82,984 units which represented a fall down to less than one tenth of 2006 levels.

On the demand side, household confidence was severely affected by the deteriorating economic environment. The slight recovery in housing demand observed in 2010, for an increase in housing transactions of 5.4%, came to a halt in 2011 due to the ongoing financial turmoil and high unemployment. In this context, the total number of housing transactions amounted to 347,345 units in 2011 which represented a yearly fall of 29.3%.

The adjustment in housing prices gained speed in 2011 and resulted in a y-o-y fall of 6.8% compared to the drop of-3.5% recorded in 2010. The peak-to-trough correction up to Q2 2012 was 24%.

Equally, mortgage lending activity throughout the year 2011 was affected by the worsening of the sovereign debt crisis. In this respect, the adverse global macroeconomic environment considerably contributed to increase yield spreads and made it problematic for banks to access wholesale market funding.

The scarcity of credit and increasing uncertainty on the financial markets affected both supply and demand for loans.

At the end of 2011, total outstanding mortgage lending (residential and commercial) was EUR 1,006,685 million and recorded an annual decrease of 6.5%, which in absolute terms represented a loss of EUR 70,242 million. Residential mortgage decreased by 1.9% amounting at year-end to EUR 666,946 million, accounting for 62.1% of GDP.

In terms of new lending, new mortgage activity in 2011 continued to decrease. At the end of 2011, the total number of new mortgage loans fell by 33.6% to 530,342, of which 244,743 were for house purchase. In volume terms, gross mortgage lending (residential and commercial) also fell by 34% on a yearly basis corresponding to EUR 82,074 million. In accordance with the above data, the average mortgage loan in 2011 decreased to around EUR131,000 and the average LTV ratio for new lending was 57.9%.

Doubtful loans continued to increase during 2011, albeit at different rates according to each credit type. For example, real estate developers and construction mortgage lending performed notably worse than other loan types as a consequence of the sharp contraction in activity, so that the ratio of doubtful loans exceeded 20% at the end of the year.

The picture was different for residential mortgage lending to households, as the ratio of doubtful loans increased slightly, i.e. from 2.39% in December 2010 to 2.74% in December 2011.

Funding

Funding activity was subdued also in 2011 due to the sovereign debt crisis in the euro area. As a result of increasing difficulties with debt issuance, financial institutions made a large use of the Eurosystem financing facilities.

In this context, the issuance of Spanish covered bonds (*cédulas hipotecarias*) continued to be an important funding tool for financial institutions and proved a resilient instrument despite continued downturn in the funding markets.

New issuance of *cédulas hipotecaria*s in 2011 amounted to EUR 74 billion compared to EUR 47 billion in 2010, which represented an annual growth of 57.7%. The outstanding volume of *cédulas hipotecarias* increased by 7.7% and amounted at the end of the year to EUR 367,578 million.

It is worth noting that the issuance of *multiseller cédulas hipotecarias* considerably decreased in 2011 as a consequence of the restructuring of the financial system and also due to the fact that mainly the largest financial institutions used to be *multiseller* issuers.

The new issuance of Mortgage Backed Securities (MBS) still encountered serious difficulties in 2011, although it recorded a 11.6% increase cpmpared to 2010 figures. The outstanding volume, however, –decreased by 8.3% down to EUR 167,537 million.

As far as the composition of the new issuance is concerned, the proportion of *cédulas hipotecarias* out of the total volume of mortgage securities was 80.6%, while the share held by MBS was 19.4%.

	EU27, 2011	Spain, 2011	Spain, 2010
GDP growth (%)	1.5	0.4	-0.1
Unemployment rate (%)	9.7	21.7	20.1
Inflation (%)	3.1	3.1	2.0
% owner occupied	68.9	85.0	85.0
Residential Mortgage Loans as % GDP	51.7	62.1	64.7
Residential Mortgage Loans per capita, EUR thousand	13.01	14.79	14.45
Total value of Residential Loans, EUR million	6,534,919	666,946	680,208
Annual % house price growth	-1.1	-6.8	-3.5
Typical mortgage rate (euro area), %	3.49	3.47	2.52

Source: EMF, EUROSTAT, ECB, Bank of Spain, Instituto Nacional de Estadística

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Spain = 2008

Sweden

By Christian Nilsson, Swedish Bankers' Association

Macroeconomic overview

Real GDP grew by 3.9% in 2011, but the economic situation of the country deteriorated around the end of the year. GDP decreased y-o-y by 1.1% in Q4 2011, compared to a growth rate of 4.3% in the previous quarter.

The main factor behind this performance is falling exports in the wake of the sovereign debt crisis in the euro area; in addition, domestic demand was also experienced sluggish developments. The weak macroeconomic performance affected developments in the labour market as well, and employment has been decreasing since the autumn of 2011. The unemployment rate decreased in early 2011 but started to rise slightly by the end of the year. The unemployment rate was 7.5% on yearly average in 2011.

Inflationary pressure in the Swedish economy eased during 2011. Adjusted for changes in mortgage interest rates, the inflation rate has been decreasing for two consecutive years. Inflation, if measured with a constant mortgage interest rate (CPIF), was around 1% around the end of the year, clearly below the long-term inflation target. The "ordinary" inflation rate has also decelerated during 2011 and was around 2.5% on yearly average.

The Riksbank, the Swedish Central Bank, increased the repo rate twice between February and July 2011, up to 2%. However in December the Riksbank reversed its monetary policy and started to lower the repo rate. At year-end 2011, the repo rate was 1.75%. In February 2012, the Riksbank further cut its repo rate down to 1.50%.

Housing and mortgage markets

Housing completion reached just 20,300 dwellings during 2011, which is marginally higher than the figure for 2010. However, once put in historical context housing completion figures have continued to decrease since 2008 and can be considered comparably lower in comparison to demand. On the other hand, housing starts have fallen during 2011 after increasing in 2010. In 2011, around 24,500 housing starts were recorded. The National Board of Housing expects an increase in construction activity in 2013 as a result of better growth prospects for the Swedish economy. Construction figures are low in Sweden compared to many other EU countries and in some regions there is clearly some housing shortage.

In 2011, transactions of one-family homes decreased slightly (by 4.8%). The housing market has cooled off during 2011, as the prices of one-family homes increased only 0.7%, compared to the 7.4% rise in 2010. In Q4 2011, house prices fell by 3% on a yearly basis. Developments in house prices are influenced by increasing interest rates, by the LTV-roof ceiling of 85% for new mortgages imposed by the Swedish FSA, and also by and increasing demand from banks for amortisation on mortgage loans with LTV above 75%.

Despite weak residential construction activity and cooling housing market, in 2011 residential construction cost increased by 3.3% (2.5% in 2010).

Outstanding residential mortgages grew by 4.9% during 2011 (in SEK terms) which is lower than the increase of 7.2% in 2010. The annual rate of growth in mortgage lending has slowed down for several years and in 2011, it was the lowest in the last ten years. As described earlier, the lower growth rate in mortgage lending is mainly the result of the gradual increase in interest rates which started in 2010. Another factor behind is the LTV-ceiling of 85% for new mortgage lending that has been imposed by the Swedish FSA. In early 2012, the Swedish FSA published a report writing that the LTV-ceiling has proved effective. The LTV for new loans to households decreased during 2011 for the first time since 2002 (the earliest data available). In 2011, the average LTV for new loans was 69%.

The level of mortgage credit institutions' doubtful loans is comparatively low in Sweden, and has not increased since the onset of the financial crisis, amounting during 2008 and the first half of 2009 to only 0,02% of total lending to the public (according to figures from the Swedish FSA). From the second half of 2009 to the end of 2011, the proportion of doubtful loans has further decreased to only 0.01% of total lending to the public.

The proportion of mortgage credit institutions' net credit losses has increased slightly since the onset of the financial crisis in 2008. However, before the financial crisis it was even negative or - in other words - recoveries were larger than the gross credit losses . Net credit losses have remained very low since the financial crisis and amounted to 0% of mortgage credit institutions' total lending in 2011, compared to 0.01% in 2010.

Funding

Covered bonds are the most common form of mortgage funding. Despite the weakness of financial markets throughout the recent financial turmoil, during 2011, Swedish institutions were able to issue covered bonds on the Swedish and global markets and the stock of outstanding covered bonds increased by 10% equating to EUR 209 billion.

The increase in residential mortgage lending was the main reason behind the increase in the stock of covered bonds. Another important reason was that the Swedish institutions, due to the new Basel III rules, have reduced their short-time funding, such as unsecured debt, and clearly shifted to long term funding.

	EU27, 2011	Sweden, 2011	Sweden, 2010
GDP growth (%)	1.5	3.9	6.2
Unemployment rate (%)	9.7	7.5	8.4
Inflation (%)	3.1	1.4	1.9
% owner occupied	68.9	65.5	66.6
Residential Mortgage Loans as % GDP	51.7	78.1	81.3
Residential Mortgage Loans per capita, EUR thousand	13.01	32.12	30.39
Total value of Residential Loans, EUR million	6,534,919	302,457	283,845
Annual % house price growth	-1.1	0.7	7.4
Typical mortgage rate (euro area), %	3.49	4.19	2.78

Source: EMF, Eurostat, ECB, Statistics Sweden

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Sweden = 2011

United Kingdom

By Caroline Purdey, Council of Mortgage Lenders

Macroeconomic overview

The return to economic growth from the 2008/09 recession did not continue smoothly during 2011 with GDP alternating between periods of small expansion and contraction through the year. Overall in 2011, output increased by 0.7%.

After lagging behind in the recession, the unemployment rate increased to just below 8% in 2009 and was fairly stable at this level through 2010. In 2011, unemployment started to drift up again and reached 8.4% by the end of the year.

Inflation continued to be above the Bank of England's (BOE) 2% target and increased further during 2011 peaking at 5.2% in September. Inflation started to fall back at the end of 2011, to 4.2% in December, as the impact of past rises in VAT and petrol prices dropped out. Despite the above target inflation rate, the BOE rate was maintained at 0.5% throughout 2011. Expectations for base rate change pushed further outwards as 2011 progressed – earlier in the year some commentators expected a small increase before the end of 2011, it is now regarded unlikely that the BOE will increase the rate before 2013.

Housing and mortgage markets

There was an increase in the annual gross mortgage lending total for the first time since 2007. GBP 140.7 billion (EUR 162.1) was advanced, up by 4% compared to 2010.

The Buy-to-Let (BTL) and remortgage sectors were the two key drivers of this growth. There was a 40% increase in BTL lending, albeit from a low base, to GBP 14 billion (EUR 16.1 billion). Remortgage lending totalled GBP 46.7 billion (EUR 53.8 billion) in 2011, an 18% increase from 2010, although growth was stronger at the start of the year and tailed off in the final months of 2011.

Meanwhile housing transactions and house purchase lending fell in 2010 compared to 2011. In total there were 867,000 housing transactions in 2011 (down from 886,000 in 2010) and 508,100 house purchase mortgage loans advanced (down from 538,200 in 2010).

House purchase lending was particularly slow at the beginning of the year, and fell by 25% in Q1 2011 compared to the previous year's levels. This fall is even more significant when viewed in the context of the subdued lending levels at the start of 2010 as a result of the closing of the stamp duty concession at the end of 2009. House purchase lending recovered somewhat as 2011 progressed, and increased by 6.2% in Q4 2011 compared to the previous year's levels. This was the first quarterly y-o-y increase since mid-2010.

After the upwards movement in house prices during 2010, prices softened in 2011 with monthly indices fluctuating between small upwards and small downwards movements. On average, prices were 1% lower in 2011 than in 2010 (as measured by the house price index at mortgage completion stage published by the Office for National Statistics, previously published by the DCLG).

Full year house building statistics are not available yet for the UK. In the first half of 2011, house building increased in the UK, the number of completions increased by 5% in Q1 and 3% in Q2 compared to the same quarter a year earlier. House building remains subdued compared to historical levels however.

Compared to historical averages, LTV ratios remain low. FTBs typically borrowed 80% of the property's value in 2011, up from 77% in 2010 but lower than the long term average of around 90%. The average for all house purchase loans was 75% in 2011, up slightly from 73% in 2010.

The number of mortgages in arrears continued to trend downwards in 2011. At the end of the year, 160,300 loans (1.42% of all outstanding) were in arrears of 2.5% of the balance or more, which was down from 174,000 at the end of 2010. While total arrears have been on a downward trend, the number of loans in the deepest arrears bands has remained fairly static. At the end of 2011, 27,900 mortgages were in arrears by more than 10% of the total balance, compared to 27,500 at the end of 2010.

In 2011, 37,100 properties were taken into possession (0.33% of properties) down from 38,100 in 2010. Helped by lender forbearance and government support, possession rates continue to be low compared to the 1990s when, at the peak in 1991, 75,000 properties were taken into possession in a year.

The FSA Mortgage Market Review (MMR) continued to be the key policy issue for the mortgage market in 2011. At the end of 2011, the FSA published a revised set of responsible lending principles for consultation. Once the final policy has been finalised, the FSA has stated that it intends to allow firms at least 12 months to implement the changes.

In addition, at the end of 2011, the government set out its housing strategy. This includes proposals for a new build indemnity scheme to enable people with a small deposit to buy a new build property, and a reinvigorated RTB scheme. Both of these schemes were launched in March 2012.

Funding

The relative positive sentiment seen in the first half of 2011, where issuers were able to access a broad range of markets and curriencies, continued into the second half of 2011 and the first quarter of 2012, although this positive sentiment has to be seen against a backdrop of highly volatile markets and limited wholesale issuance in 2008-2010. This return to slightly more normal funding markets has, however, continued to be punctuated by periods where market volatility has caused the wholesale markets to be closed to new issuance due to periods of high stress e.g. the on-going sovereign debt crisis. Despite this, the larger UK banks and building societies were able to raise wholesale funding from the capital markets in GBP, EUR and USD principally via the covered bond and Residential Mortgage Backed Securities (RMBS) markets. Over this period of time, the covered bond market has shown a capacity to provide funding and the RMBS market has continued to recover from its nadir of 2008 to 2010. However the senior unsecured bond market continues to be harder for institutions to access at attractive funding levels.

In addition, ECB action via the offering of LongTerm Refinancing Operations (LTRO), has allowed European financial institutions including some UK banks and building societies, further access to long term (3 year) stable financing and has ensured that most UK financial instituions have had sufficient access to funding over the period. For those insitutions unable to access the wholesale markets however, the outlook for funding is more mixed. The competitive environment for retail deposits in UK remains fiercely competitive and the marginal cost of acquiring deposits is quite high. As a result, while some mortgage lenders continue to forecast at best, modest growth in the mortgage market, many continue to shrink their balance sheets.

The relatively positive funding markets over the past 18 to 24 months has meant that the potential refinancing cliff created by the termination of the government support schemes (SLS and CGS) has passed. The markets however remain fragile with the second quarter 2012 being dominated by the continuing Greek crisis and the implication for the EUR if Greece defaults and leaves the euro area. Furthermore, the market continues to be concerned with the domino effect: that the Greek crisis will spread to other EU sovereigns including Portugal and Ireland but more significantly Spain and Italy.

	EU27, 2011	UK, 2011	UK, 2010
GDP growth (%)	1.5	0.7	2.1
Unemployment rate (%)	9.7	8.0	7.8
Inflation (%)	3.1	4.5	3.3
% owner occupied	68.9	65.5	65.5
Residential Mortgage Loans as % GDP	51.7	83.7	84.5
Residential Mortgage Loans per capita, EUR thousand	13.01	23.29	23.26
Total value of Residential Loans, EUR million	6,534,919	1,453,859	1,442,453
Annual % house price growth	-1.1	-1.0	7.2
Typical mortgage rate (euro area), %	3.49	3.56	3.76

Source: EMF, Eurostat, ECB, Bank of England, Office of National Statistics, HM Revenue and Custom

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

United Kingdom = 2010

Non-EU country reports

Iceland

By Magnus Arni Skulason, Reykjavik Economics EHF

Macroeconomic overview

In 2011, the Icelandic economy grew in real terms for the first time since 2008 and the collapse of the banking sector in the autumn of this year. Real GDP increased by 3.1% in 2011, to reach ISK 1,630 billion (GDP per capita was 44,025 in US dollar terms or equal to USD 36,820 at purchasing power parity). Mainly as a result of the recession recorded in 2009 and 2010, GDP per capita at purchasing power parity was significantly below its pre-crisis level in 2011, but remained well above the EU average. According to the European economic forecast - spring 2012, real GDP is expected to grow by 2.1% in 2012, essentially driven by domestic demand.

According to Statistics Iceland, unemployment in 2011 decreased by 0,5 percentage point compared to 2010 and stood at 7.1%.

Despite the inflation target set at 2.5 % by the Central Bank of Iceland, the inflation rate was above 4% in 2011. Inflation is particularly damaging in the Icelandic mortgage market, due to the high market share of CPI-indexed mortgages. These inflationary pressures result mainly from the fluctuations in the Icelandic krona (ISK), which increase the prices of imported goods. This causes Iceland much concern, because the economy is still heavily dependent on imported goods such as oil, consumer goods and manufacturing products.

Housing and mortgage markets

According to a report on housing by the Ministry of Welfare, around 77% of all housing in Iceland was owner occupied in 2009. The share held by the rental market was around 17%, while the rest was some kind of social and student housing.

In 2011, the number of housing starts amounted to only 142, i.e. the lowest level on record. The number of housing completions reached 565 units, which represented 1.77 completion per 1,000 inhabitants. The average number of housing completions since 1970 has been 7.23 per 1,000 inhabitants. There is evidence that the home building industry experienced some of its toughest moments, notably mirroring the excess housing supply that was accumulated during the booming years (from 2004-2007). Although there is no housing shortage, housing investment is expected to increase by 16% in 2012 according to Statistics Iceland.

In 2011, the number of housing transactions grew by 47% compared to 2010, up to 5,887 transactions[87]. Nevertheless, the average number of transactions from 1990 to 2011 was still significantly higher, at 7,774 units per year.

In nominal terms, housing prices in the Reykjavik Capital Region increased by 9.9% in 2011, but in real terms housing prices increased by 4.4%. The housing market therefore recovered, and it seems that it is currently stabilising and the equity position of households is improving. As a result of draconian capital controls, limited investment opportunities in government bond markets and a very thin stock market, some analysts are anticipating a real estate bubble.

Icelandic households are heavily indebted compared to the levels recorded in other countries. According to the Central Bank of Iceland's Financial Stability Report, the household debt ratio peaked at 127% of GDP in 2008, due to excess housing investment and leveraged private consumption, then dropping to 113% of GDP in Q4 2010 and 110.3% in Q4 2011. CPI-indexed loans, which are mainly mortgages, amounted to 72.7% of GDP. As a consequence of the restructuring of household debt, non-indexed mortgages increased from 2.3% of GDP in 2010 to 4.8% in 2011, while they were almost non-existent in 2009.

The repetitive devaluations of the Icelandic krona between Q4 2007 and Q4 2008 drove the inflation rate upward. This soaring inflation increased the CPI indexed mortgage's principal and reduced homeowners' equity in addition to the fall in housing prices. CPI-linked mortgage instruments became increasingly less attractive over time, while the demand for non-indexed mortgages grew rapidly. The Icelandic banks started to offer non-indexed mortgages or, in other words, adjustable rate mortgages, in the autumn of 2011. This is a major change in the supply of mortgage loans in Iceland. One of the most popular ARMs has a fixed nominal interest for 5 years and a maturity of 25 or 40 years. The LTV ratio is 60% at a lower interest rate. In comparison, the traditional CPI indexed mortgages, mainly provided by the Housing Financing Fund (HFF), offers an LTV ratio of 80% and a maximum loan of ISK 20 million. The real interest rate on those indexed mortgages is 4.20% and prepayment fees of 50 bps can be added. New product developments in the mortgage market are expected in the coming months.

Housing costs reached 18.1 % of disposable income on average in 2011, but around 11.3% of households spent 40% of their disposable income on housing costs, according to Statistics Iceland. Single occupants, young people and the poorest renters were most affected.

Arrears have been a major problem for the Icelandic banking sector due to the financial crisis. According to a survey from CreditInfo, around 26,000 individuals out of a population of 320,000 were in serious arrears, i.e. over 90 days. The 30-to-49 age group has the highest default risk and probability to be in arrears. Nevertheless, the situation improved slightly in 2011, as the share of the debt affected by arrears went down from 20% in 2010 to 18% in 2011, according to the Central Bank of Iceland.

In 2011, all mortgage loans with an LTV ratio over 110% (of the current market value of houses), were written off. To reduce the impact of higher mortgage payments of CPI-linked mortgages, the government provided a special interest subsidy in addition to the normal interest rate subsidy programme. The freezing of mortgage payments is still in place, but that programme is coming to an end.

Funding

Mortgage funding has changed substantially following the re-entry of the banks into the mortgage market. The banks have been issuing covered bonds and using wholesale deposit accounts to finance their mortgage portfolio. The source of finance has mainly been from institutional investors, i.e. pension funds and insurance companies. In addition, the banks have financed mortgages with their own equity. The new banks are well capitalised with an equity ratio of over 20%. The Housing Financing Fund (HFF) financed its activities by issuing governmental secured mortgage backed securities based on the demand for the fund's loans. Institutional investors are the main buyers of HFF bonds.

[87] See *Registers Iceland.*

	EU27, 2011	Iceland, 2011	Iceland, 2010
GDP growth (%)	1.5	3.1	-4.0
Unemployment rate (%)	9.7	7.1	7.6
Inflation (%)	3.1	4.2	7.5
% owner occupied	68.9	77.0	77.0
Residential Mortgage Loans as % GDP	51.7	n/a	n/a
Residential Mortgage Loans per capita, EUR thousand	13.01	n/a	n/a
Total value of Residential Loans, EUR million	6,534,919	n/a	n/a
Annual % house price growth	-1.1	5.0	-3.8
Typical mortgage rate (euro area), %	3.49	n/a	5.0

Source: European Mortgage Federation, EUROSTAT, ECB, Central Bank Bank of Iceland, Reykjavik Economics

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Norway

By Odd Christensen and Camilla Landsverk, Norwegian State Housing Bank

Macroeconomic overview

In 2011, economic growth in the OECD area and a number of emerging economies abated, and weak foreign growth curbed Norwegian upturn. Real GDP in Norway increased by 1.4% from 2010 to 2011. Norway has experienced weak exports development. The effects of the slowdown in global demand were strengthened by higher wage growth in Norway than in many of Norway's trading partners, and by the appreciation of the NOK. However, the contribution from the oil sector, which accounts for a relevant proportion of Norwegian GDP ensured economic growth, and investment in the oil sector increased by more than 10% on a yearly basis.

Norway experienced a rather low inflation in 2011. The Consumer price index (CPI) rose by 1.2% (and so did the Harmonised Consumer Price Index). The low increase in CPI was due the combination of a stronger NOK and a slowdown in wage growth. Besides, price developments were also affected by a fall in energy prices. A decline in prices of food and clothing also contributed to dampening the annual growth in the CPI.

As for interest rates, the average three-month money market rate was 2.9% in 2011, i.e. 0.4 percentage points higher than in 2010. The base rate was cut to 1.75% in December 2011, which was equal to the record low observed in 2010. The policy rate was cut basically to prevent the economy from experiencing recession and the CPI from falling further.

Employment increased by almost 50,000 people during 2011. The increase in employment was particularly remarkable in the construction sector. On average, 3.3% of the labour force was registered as unemployed in 2011, compared to 3.6% in 2010.

Housing and mortgage markets

House prices increased by 8% in 2011 according to Statistics Norway's quarterly statistics, despite a slight fall in Q4 2011. This house price growth was mainly due to a considerable increase in the population and continued low interest rate environment. As house prices rise markedly, house-building becomes more profitable. Consequently, housing investment showed a big increase in 2011 (9.4%). This year investment in housing amounted to almost 20% of gross capital formation, a considerable increase compared to the previous year. Thus, Norway experienced a big upturn in housing production. The number of housing starts rose from 21,100 in 2010 to 27,700 housing units in 2011. More housing starts were triggered by large population growth, especially in the big cities. Thus, more than 40% of the new housing production consisted of flats, while detached houses – the most common type of residential building in Norway - amounted to 30%.

In addition, it is worth noting that there were 6% more employees in the building and construction sector compared to one year earlier. A relatively high proportion of employees in the residential construction industry are immigrants from the new Member States of the EU. As a consequence of the growing number of housing starts over the last two years, the numbers of completions also increased – from slightly more than 17,800 housing units in 2010 to around 20,000 units last year - i.e. on average 4.1 units per 1,000 inhabitants. The yearly increase in residential construction costs was 3.7% in 2011, vs.3.1% in the previous year. The Norwegian Central Bank`s key policy rate was maintained at 2.25% during most of 2011, but then it was cut down to 1.75% at the end of the year.

Total mortgage lending outstanding has increased by 7 to 8% per cent on yearly average over the last three years. However, growth in the popular lending scheme, "mortgage framework loans", was clearly higher (20% in 2011). According to this scheme, the borrower is to a larger extent free to decide when the loan will be repaid. The share of mortgage loans out of total households debt amounted to 80% in 2011, which is in line with what was recorded in the previous years.

Norwegian households had an average debt of NOK 992,000 (EUR 127,300) in 2010, which corresponded to 1.5 times the average household income. The average household debt has increased by 5.6% since 2009. Households in the highest income segment experienced the strongest increase in debt. The number of Norwegian households holding a debt worth more than three times their income increased slightly from 2009 to 2010. In total, 14.3%of households had such debt to income ratio.

The vigorous growth in house prices and household debt increased the risk of financial instability. The "Residential loan survey 2011" issued by the Financial Supervisory Authority of Norway reports that the proportion of residential mortgages with a high loan-to-value ratio is on the increase, and a round of inspections of mortgage lending practice to a panel of of banks shows that credit assessment needs to improve. This situation has led to a change in the guidelines for the banks' lending practice. The Supervisory Authority recommends to lower the level of what is considered a prudent loan-to-value ratio from 90 to 85% of the property's market value; this ratio covers all loans secured on the property. Defaults showed a slight reduction in 2011. Statistics from The Norwegian Financial Services Association (FNO) report that net non-performing assets of commercial banks amounted to 1.2% of net loans to customers in 2011 (vs.1.6% in 2010). Despite less defaults, total losses rose and amounted in 2011 to around NOK 4,100 millions (EUR 525.5 million), i.e. 0.10% of average total assets.

As far as institutions which provide mortgage loans to residents are concerned, it should be noted that the number of savings banks continued to decline. FNO reports that in 2011 there were 112 savings banks, while in 1970 they were almost 500. In addition to savings banks, there are around 20 commercial banks.

As for changes in housing policy, a public research project on social housing policy (NOU2011:15) was launched in August 2011. The research aims at providing empirical fundamentals for housing policy over the next ten years. Among other issues, this paper focuses on homeownership versus rental tenure for low-income households. In Norway, about 80% of households are homeowners (according to the latest population census in 2001). The first results from a new population and housing census are expected to be published over the summer 2012. A housing policy bill will be proposed by the Parliament in early 2013. In addition, the Ministry of Local Government and Regional Development has submitted to the Parliament a building policy bill in June 2012.

A lower loan-to-value ratio (LTV), i.e. from 90% to 85% - will of course have implications for the own capital required to borrowers, and thus this initiative may prevent low-income households (particularly potential first home-buyers) from entering the housing market.

Funding

In Norway, 344 bonds were issued by Norwegian banks, worth NOK 66.9 billion (EUR 8.6 billion) during 2011. The corresponding figures for 2010 were 430 issues valued at 73.6 billion (EUR 9.4 billion). Thus the y-o-y decrease in issuance was 20%.

Banks finance their operations through different sources of credit, such as deposits, inter-bank loans, bond debt, short-term security loans and loans from the Norwegian Central Bank. Customer deposits are often regarded as the most stable of these financing sources. The deposit-loan ratio is the amount of a bank's loans divided by the amount of its deposits at any given time. At end-July 2011, the Norwegian banks' deposit-loan ratio was 78.3%, for an increase of 16.3% over the past 3 years. At end-July 2011, banks's total deposits amounted to NOK 1,687 billion (EUR 216.6 billion). This was an increase of 7% compared to the corresponding period of the previous year. Increased household deposits contributed to an increase in the deposit-loan ratio. However, this increasing ratio was also influenced by the transfer of loan portfolios from banks to bank-owned mortgage companies. Such "loan transfer" is a result of the introduction of covered bonds issued by mortgage companies.

Another important source of funding is the use of inter-bank loans. Norwegian banks' total inter-bank loans amounted to NOK 750 billion (approx. EUR 100 billion) at the end of July 2011.

	EU27, 2011	Norway, 2011	Norway, 2010
GDP growth (%)	1.5	1.4	0.7
Unemployment rate (%)	9.7	3.3	3.5
Inflation (%)	3.1	1.2	2.3
% owner occupied	68.9	85.0	85.0
Residential Mortgage Loans as % GDP	51.7	68.6	68.6
Residential Mortgage Loans per capita, EUR thousand	13.01	48.64	44.54
Total value of Residential Loans, EUR million	6,534,919	239,313	216,379
Annual % house price growth	-1.1	8.0	8.3
Typical mortgage rate (euro area), %	3.49	4.40	4.08

Source: EMF, EUROSTAT, ECB, Central Bank of Norway, Statistics Norway, Financial Supervisory Authority of Norway

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Russia

By Evgenia Zhelezova, Agency for Housing Mortgage Lending

Macroeconomic overview

In 2011, the Russian economy recovered: real GDP grew by 4.3%, and the Industrial Production Index by 4.7% (almost half of the growth rate recorded in 2010, i.e. 8.2%).

Economic growth in 2011 was coupled with strong recovery of domestic demand, which was further fuelled by falling unemployment (down to 6.5%) and increasing salaries in the state-owned sector and pensions.

Nevertheless, despite record high in the average annual oil prices (that reached USD 110 per barrel, for an increase of 40% compared to 2010) and inflation at record lows (6.1%), real disposable income in the public sector recorded the lowest growth rate since 2000, i.e. only 0.8%.

Under such circumstances, domestic demand in 2011 grew to a large extent thanks to the expansion of lending activity: retail loan portfolio of the banking sector increased in 2011 by 35.9%, which is the post-crisis record growth (note that this growth rates was 2.5 times higher than in 2010). In our view, however, this may bring some risks associated with overheating. In addition, capital outflow reached in 2011 its record high (with the exception of the crisis year of 2008), net outflow worth USD 84.2 billion, i.e. EUR 60.5 billion implied that it is necessary to improve the business climate in order to let the economy grow at its potential.

Housing and mortgage markets

According to Rosstat, the housing stock in Russia in 2010 was 60,125,908 units with a total area of 3,228,941,390 square meters, 84% of which was occupied by private owners, equating to 22.6 square meters per person.

A positive trend observed in 2011 was the revival of the construction sector that, that had experienced the longest period of post-crisis stagnation compared to other economy sectors. According to Rosstat, in 2011, 788.2 housing units, for a total area of 62.3 million square meters. Private builders started 201.2 thousand houses with the total area of 26.7 million square meters, which is an increase of 104.6% compared to 2010. The key driver for the recovery of the construction sector in 2011 was commercial construction sector rather residential construction. Thus the percentage of private owner-builder construction out of the total area built was 42.9% (vs.43.6% in 2010).

Despite active growth of turnover on the housing market and better affordability of mortgage lending, according to Rosstat, the last period when the price of housing on the primary and secondary market increased in real terms was Q3 2008. In 2011, house prices in Russia on the whole recorded nominal growth of 7% (with annual average inflation of 8.4%). This increase was to a large extent due to the changes in the demand structure during the post-crisis period. Demand was mainly concentrated in the most affordable economy-class housing sector the renovation and maintenance sector.

Throughout 2011, the mortgage lending market recorded several positive changes. In detail, the value of mortgage debt on banks' balance sheets rose steadily (31%) and, at year-end, reached around RUB 1.5 trillion (EUR 37 billion). The quality of the mortgage portfolio also experienced a significant improvement. Mortgage loans in arrears for 30 days or more at end- 2011 decreased in absolute terms from RUB 88 billion (EUR 2.5 billion) to RUB 69 billion (EUR 1.7 billion) and its proportion out of the total amount of outstanding mortgage debt almost halved (i.e. it went from 7.8% to 4.7%). Despite the increase in early repayment, up to 14.7%, new mortgage loans were originated faster than the existing ones were repaid.

According to 2011 figures, 523,582 loans were issued for a total amount of RUB 716.9 billion (EUR 17.5 billion), which is 1.7 times higher in quantitative terms and 1.9 times higher than in 2010. In terms of number of loans, this is 174.1 thousand loans more than at the pre-crisis peak in 2008 (349.5 thousand loans).

To a large extent, such growth in mortgage lending was secured by stronger competition among market players, encouraging banks to ease their lending criteria so as to make mortgage lending more affordable. Interest rates on mortgage loans were gradually decreasing, as a result of AHML's decision to cut the rates on all its products. As a result, the annual weighted average interest rate on denominated mortgage loans fell to its record low, i.e. 11.9% (compared to 13.1% in 2010, 14.3% in 2009 and 12.9% in 2008).

The considerable decrease in interest rates observed during the whole of 2011, led to the increase in the percentage of mortgage transactions and contributed to the growth of the mortgage market as a whole (the number of housing transactions increased by 54% compared to 2008 and by 25% compared to 2010). For instance, while in 2008 the share of properties purchased with mortgage was 16.9% of the total number of real estate transactions, during 2009 the crisis resulted in a fall to 11.9%, followed by a record high in 2011 (17.6%). It is worth noting that this recovery took place against the background of a considerable increase of the total number of transactions with residential properties.

Coupled with the increase in mortgage issuance, the quality of the mortgage portfolio also improved significantly. Mortgage debt in arrears for 30 days or more by the end of 2011 decreased in absolute terms from RUB 88 billion (EUR 2.2 billion) to RUB 69 billion (EUR 1.7 billion) and its share in the total amount of cumulated mortgage debt almost halved (from 7.8% to 4.7%). The number of mortgage loans in arrears from 31 to 90 days and from 91 to 180 days almost halved. Mortgage debt without overdue payments grew by 40.2%, reaching the value of RUB 1.39 trillion (EUR 34 billion) and its proportion out of the total mortgage portfolio grew from 87.8% to 94.1%. Under such circumstances, the share of mortgage debt in arrears clearly stabilised.

The total proportion of mortgage debt in arrears, as of end-2011, was 3.1% of total mortgage debt 2% of loans denominated in RUB, thus returning to the level of the Q3 2009. At the same time, the percentage of payments in arrears foreign-currency denominated loans continued to grow, mainly as a result of existing loans that were originated before the crisis, particularly in "exotic" currencies (mostly CHF and JPY).

The practice of defaults and foreclosures during the crisis years resulted as the very last resort for the lender, before which the lender should use every effort to preserve the good-quality asset and prevent foreclosure of the property. At the same time, it became obvious that the lender who has made every possible attempt to restore the debtor's solvency and preserve the asset must be provided with an effective and fast remedy to recover the debt by using the mortgaged property. Therefore, during the post-crisis period, it clearly became necessary to create a reasonable balance of interest between lenders and borrowers.

In this context, the following legislative initiatives were approved:

1. A law was adopted offering lenders and borrowers the opportunity to find an agreement concerning the sale of the mortgaged property that the court, when making its decision on foreclosure, should be guided by. Forced sale of residential properties as part of foreclosure procedure is only possible through an open auction or tender. The rules of "debt zeroing" were also set, i.e. termination of obligations of the debtor to the lender if the mortgagee decides to retain the mortgaged residential property as part of foreclosure procedure, provided that the amount of the obligations secured with the mortgage does not exceed the value of the mortgaged property at the time of taking out the mortgage.
2. The law grants the borrower the right to the early repayment of the loan and prohibits the lender from charging a commission for early repayment.
3. The resolution passed by the Supreme Arbitration Court of the Russian Federation deemed the following conditions of loan agreements illegal:
   - the provision establishing, directly or indirectly, compound interest;
   - the provision under which the bank may accelerate the loan if the financial situation of the borrower deteriorates;

- the provision concerning dispute resolution at the location of the lender;
- the provision under which the borrower should pay a fine for refusing to receive the loan;
- the provision prohibiting early repayment of the loan and establishing a fine for early repayment of the loan;
- the provision granting the bank the right to change the amount of fees charged for its banking services;
- the provision under which the bank may charge a fee for providing information about the status of debt under the loan
- the provision under which all the costs incurred in connection with lawful mortgage should be payable by the borrower.

The following provisions of loan agreements were considered as lawful (i.e. not violating any rights of consumers).

- the provision under which the bank may accelerate the loan in the event of non-performance by the borrower of his/her obligation to repay a part of the loan when it is due and payable;
- the provision under which double interest rate is charged for using overdue part of the loan as a penalty;
- the provision under which a fee is charged for using the loan, such fee consisting of a fixed and floating parts while the cap interest rate exists;
- the provision under which it is possible to make an agreement with personal insurance of the borrower provided that the borrower can make an agreement with the same lender without this provision but under more stringent terms (for example, at a higher interest rate);
- the provision establishing the borrower's liability for any delay with payments made to repay the loan being credited to the correspondent account of the bank;
- the provision under which the borrower opens a current account with the lending bank to make payments and no fee is charged for servicing this account;
- the provision granting the bank the right to assign its rights under the loan to any assignee, including non-lending instructions, without the borrower's consent.

Funding

Q3 2011 was characterized by a deterioration of the sovereign debt problems affecting some leading economies. Economic difficulties in the USA and the sovereign debt crisis in the euro area during the autumn of 2011 all resulting in mounting tensions on financial markets and in higher costs of borrowing for many Russian banks, which in some cases almost had no access to funding. This new crisis, to some extent, recalled the beginning of the 2008 crisis. The above factors paved the way for increases in interest rates, growing cost of mortgage funding and higher attractiveness of savings deposits.

According to the Bank of Russia, in 2011 the amount of refinanced mortgage housing loans sold was RUB 93.7 billion (EUR 2.3 billion), the amount of funds raised through the sale of the HML pool and the issuance of securities was RUB 11.1 billion (EUR 300 million), the amount of refinanced HML with the retained asset on the lending institution's balance sheet was RUB 15.5 billion (EUR 380 million), and the amount of funds with the asset remaining on the lending institution's balance sheet was RUB 15 billion (EUR 366 million).

In 2011, the amount of MBS issued during the year on the domestic market reached its record high (RUB 46.5 billion, i.e. EUR 1.1 billion) including three issuances from banks for the amount of RUB 15 billion (EUR 360 million) in total, and two issuances of MBS by the AHML for the amount of RUB 20.3 billion (EUR 496 million).

	EU27, 2011	Russia, 2011	Russia, 2010
GDP growth (%)	1.5	4.3	4.3
Unemployment rate (%)	9.7	6.5	7.5
Inflation (%)	3.1	8.4	6.9
% owner occupied	68.9	84.0	84.0
Residential Mortgage Loans as % GDP	51.7	2.6	2.4
Residential Mortgage Loans per capita, EUR thousand	13.01	0.25	0.19
Total value of Residential Loans, EUR million	6,534,919	35,152	27,071
Annual % house price growth	-1.1	5.8	2.7
Typical mortgage rate (euro area), %	3.49	11.90	13.10

Source: EMF, EUROSTAT, ECB, Federal Bank of Russia, Federal State Statistics Service of the Russian Federation (Rosstat)

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Turkey

By Umur Guven, Garanti

Macroeconomic overview

The Turkish economy continued to expand above its potential in 2011, growing by 8.5% after a 9.2% growth in 2010. Even though the annual GDP growth in 2011 was almost similar to the previous year, the quarterly figures indicated a gradual slowdown in economic activity, declining y-o-y from 11.2% in Q1 2011 to 5.2% in Q4 2011. In addition, the composition of GDP growth changed gradually in 2011, contributing to the rebalancing of the economy. Resulting partly from exchange rate depreciation, net exports contributed positively to GDP growth y-o-y in the last two quarters of 2011, after pulling GDP down in the previous seven quarters. As the current account deficit soared to unsustainable levels in the first half of 2011, the Central Bank of Turkey (CBT) and the Banking Regulation and Supervision Agency (BRSA) took measures around mid-2011 to curb public consumption and credit growth. As a result, domestic demand slowed down noticeably in the second half of 2011. Nevertheless, on an annual basis, as the growth in external demand was considerably weaker than indomestic demand, the external balance of Turkey deterriorated in 2011. With widening foreign trade deficit, current account deficit continued to increase, reaching a record level of 10% of GDP at the end of 2011.

In line with strong economic activity, the unemployment rate declined to 9.8% in 2011, down from 11.9% in 2010.

The consumer Price Index inflation rose to 10.4% by end-2011, significantly above the inflation target (5.5%) of the CBT, owing to a 20% devaluation of the effective exchange rate, special consumption tax rate increases in some products and hikes in natural gas and electricity prices. In the first half of 2011, the CBT focused on ensuring financial stability through an active use of required reserves. In August, the CBT raised O/N borrowing rate to 5.00% from 1.50%, as the downward pressure on the Turkish Lira's value intensified. In the meantime, the CBT cut the one week repo rate (policy rate) by 50 basis points, to 5.75%, on the back of heightened difficulties in the global economy. As the inflation outlook deteriorated in October, the CBT raised O/N lending rate to 12.5% from 9.0% that month. From October, the CBT squeezed liquidity via the one week repo rate. Finally, the CBT secured the effective funding rate by implementing an interest rate corridor.

Public finances continued to improve in 2011, with the support of high GDP growth and debt restructuring. The general government deficit to GDP ratio declined to 1.3% in 2011, down from 3.6% in 2010. In addition, the general government gross debt to GDP ratio decreased from 42.4% to 39.4%

Housing and mortgage markets

In 2011, the Turkish residential mortgage market, reached a total outstanding volume of TRY 74.6 billion (i.e. EUR 32 billion), namely TRY 13.8 billion (EUR 5.9 billion) more than in the previous year. The mortgage debt to GDP ratio rose from 5.5% to 5.8%, which was still significantly lower than the EU27 average. In 2011, the banks disbursed TRY 29.8 billion (EUR 12.8 billion) of mortgages to more than 400,000 people. As of December 2011, approximately 1.3 million households out of 19 million had a mortgage loan with banks. Thus, this number shows clearly that the Turkish mortgage sector is still at the early stage of its development.

In 2011, the market grew by 22.7%, which was less than in the previous year, when the market soared by 36.2%. This was partly due to higher interest rates, as they increased, from the record low of 9,4% in April 2010 to 14,4% by the end of 2011. Another important factor was the efforts made by the government to dampen domestic demand in order to avoid economic overheating. As of January 2011, two important regulations have been introduced in the mortgage market: 1) The maximum LTV for mortgage loans has been set at 75%. 2) The appraisals must be done by independent appraisal firms which must be registered either by the Capital Market Board or BRSA. Admittedly, banks are still allowed to offer loans at higher LTVs. However, in that case, banks must deduct the extra amount from their shareholder equity in the calculation of capital adequency ratio, which automatically makes this type of loan too expensive to disburse.

In 2011, the growth in the housing sector was also buoyant. The number of sales transactions increased from 357,431 to 419,000, (i.e. a growth of 17%). At the regional level, the number of transactions recorded in the largest four cities grew by 9%, while the number of transactions in the rest of the country rose by more than 22%.

The number of new construction permits fell by almost 30% in 2011, standing at 642,972 units, still the second highest figure on record. The drop can be partly explained by the change in developers' sentiment, as it moved from "very positive" in 2010 to "optimistically cautious" in 2011, as a result of higher interest rates and slower market. A positive feature in the housing market is the increasing number of new occupancy permits, often interpreted as dwellings completed. The number of occupancy permits for new dwellings rose by 28% to 547,635, which is the highest figure on record. This number is also a very important indicator regarding the health of the housing sector.

House prices continued to recover. By the end of 2011, the Reidin House Price Index was 0.8% above the level recorded in June 2007, after a cumulative drop of 15% in 2008 and 2009. Owing to the favourable demograpic trend and the housing characteristics of the Turkish market, house prices are expected to continue to increase in the coming years with a steady but slow pace.

The proportion of non-performing loans (NPL) continued to decrease in 2011, ending the year with a modest 0.88%. The drop mirrored the increase in the total outstanding volume, as well as the health of the housing sector. In addition, owing to a more efficient legal system, the banks can repossess the houses related to non performing loans, sell these houses at reasonnable prices and finally close the related non performing loans.

Funding

Although there have been minor steps into building secondary markets, such as the establishment of a central agency for issuing covered bonds or RMBS, banks still fund the mortgage market with traditional instruments, namely deposits and some hedging tools. Even though the average annual growth in outstanding market lending has been above 20% since 2006, the volume of mortgage loans to banks' balance sheets ratio is still relatively low. In 2011, the proportion of mortgage loans out of the total consumer loans contracted from 48% to 44%, and the proportion of mortgage loans out of the total loans remained flat, at 11%.

The first reason for the lack of secondary markets is, as indicated above, the fact that Turkish banks do not have major difficulties in funding the mortgage loans with their existing balance sheets. However, this picture is likely to change in the coming years, especially if the mortgage market continues to grow at rates above 20%. The second reason is related to the currency. As all mortgages are in TRY, Turkish banks' major funding need for mortgages is in TRY as well. On the other hand, the investors on the mortgage secondary markets prefer to invest in bonds in EUR or USD. This leads to a gap between the investor preference and the Turkish banks' funding needs in terms of currency. The last reason is the lack of local investors. On the secondary markets, especially in emerging markets, the main players are the local institutional investors. In Turkey, other than banks, there are few institutional investors and their portfolios are still relatively small. Nevertheless, the pension fund system is expected to grow noticeably in the coming years, thanks to the new regulations, and could provide an important funding source for the Turkish mortgage market.

	EU27, 2011	Turkey, 2011	Turkey, 2010
GDP growth (%)	1.5	8.5	9.2
Unemployment rate (%)	9.7	9.8	11.9
Inflation (%)	3.1	6.5	8.6
% owner occupied	68.9	81.0	81.0
Residential Mortgage Loans as % GDP	51.7	5.8	5.5
Residential Mortgage Loans per capita, EUR thousand	13.01	0.43	0.42
Total value of Residential Loans, EUR million	6,534,919	31,894	30,435
Annual % house price growth	-1.1	7.8	2.7
Typical mortgage rate (euro area), %	3.49	14.35	9.53

Source: EEMF, EUROSTAT, ECB, National Institute of Statistics, The Banks Association of Turkey

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

Turkey = 2002

Ukraine

By Pavlo Matiyash and Oleksandr Moiseienko, Ukrainian National Mortgage Association

Macroeconomic overview

During the past two years, Ukrainian real GDP increased y-o-y by 4.2% in 2010 and by 5,2% in 2011. Economic growth was the result of stabilisation of the Ukrainian economic and political sectors.

The increase in the Consumer Price Index (CPI) was 8% in 2010 (vs.9.4% in 2010). Deceleration in inflation was also caused by stabilisation of economic and political situation in Ukraine.

Considerable decreases in household income contributed to a general decrease in loans granted to individuals and a subsequent decrease in banks' external borrowings - with the total volume of loan deposits in 2011 increasing by 9.4% up to UAH 793.2 billion (EUR 77 billion). Over the same period, the total volume of loans to individuals decreased by 50.3% down to UAH 307.4 billion (EUR 29.8 billion).

The average weighted interest rate on loans to individuals denominated in national currency in 2011 was 25.6%, while it was 12.4% for loans denominated in USD, and 11.7% for loans in EUR. As of 1 January 2012, the average interest rate on UAH mortgages was 18.3%, 16.0% on USD mortgages, and 15.7% on EUR mortgages. Average interest rates on loans denominated in foreign currencies have remained unchanged for the last 3 years, because no banks have issued loans in other currencies than UAH.

The value of total banking system deposits increased by 17.5% in 2011 up to UAH 486 billion (EUR 44.9 billion). In 2011, deposits in domestic currency increased by 16.8% and deposits in foreign currency increased by 18.4%. The average weighted interest rate on deposits in national currency, USD and EUR was 12.4%, 7.1% and 5.8% respectively.

In 2011, the unemployment rate reached 8.2% on yearly average (compared to 8.1% in 2010).

Housing and mortgage markets

In 2011, the housing market revived after a failed attempt made by legislators to radically change the registration of real estate.

To sum up, however, developments in the real estate market were not primarily driven by developments in the domestic legislative framework.

In the Kyiv capital area, the vast majority of households had to cope with housing affordability problems. However, many households had the chance to take out credit for improving their apartment and their living conditions, which often required selling their own apartment first, and then buying another.

As a result of the legislators' willingness to adopt new regulation on real estate, a tax on «extra square feet,» has been introduced. Not only will this new tax affect owners of large apartments and houses, but also the owners of very modest apartments. While the size of this tax is still small in absolute terms, other similar taxes are likely to be introduced, thereby increasing the burden on property owners.

Throughout 2011, the total mortgage portfolio of banks decreased.

As of 1st January 2012, the total mortgage portfolio of banks decreased to UAH 72.1 billion (EUR 6.7 billion), or 5.4% of GDP. Net mortgage loans were negative by UAH 20.7 billion (EUR 1.9 billion). In 2011, outstanding mortgage lending in Ukraine fell on a yearly basis by 22.3%.

The share of mortgage loans out of the total loan portfolio amounted to 9.1%, and out of the loans-to-individuals portfolio, mortgage loans represented more than one third (36.8)%.

In terms of currency breakdown, the proportion of loans issued in UAH decreased from 24.2% to 23.1%. The proportion of USD loans increased from 75.8% in 2010 to 76.9% in 2011. The proportion of EUR-denominated loans slightly decreased compared to 2010 (1.4% vs.1.6%), while the proportion of CHF loans marginally increased from 2.9% to 3%.

The total number of mortgage loans issued also decreased compared to 2010, i.e. by 9% (equating to 20,000). However, despite the decrease in the mortgage portfolio, according to latest quarterly data from the National Bank of Ukraine, the issuance of new loans recorded positive developments.

Top lenders in the Ukrainian mortgage market are the following:

- Raiffeisen Bank Aval (with a market share of 13.9%);
- Ukrsibbank (13.9%);
- Ukrsotsbank (13.4%);
- Nadra Bank (7.6%);
- Privat Bank (5.9%)

The total share held by the five top lenders at end-2011 was 54.7%, while at end-2010 it was 60.5%.

During 2011, the mortgage loans' restructuring process, which was launched in February 2009, continued. According to the National Bank of Ukraine, as of 1st January 2011, the share of restructured loans amounted to 11.6% of the total number of housing loans, or 16.6% of the total mortgage portfolio of Ukrainian banks.

Since Q4 2008, due to the NBU Resolution No. 319 of 11 October 2008 ("On Additional Measures Regarding Bank Activities"), banks almost stopped lending to any economic sector. But in Q4 2009, some banks started to grant mortgage loans again. In 2011, the total number of banks which were able to grant mortgage loans increased to 42 (from 32 in 2010), but lending criteria toughened considerably, as follows:

- Loans can be denominated only in UAH;
- Loan maturity can range from 1 to 30 years;
- A single commission ranging from 0.3% to 3% of the credit amount is applied;
- The interest rate can range between 7.8% and a ceiling of 27.5%;
- Loan-to-Value (LTV) cannot exceed 60%;

Funding

Before the onset of the global crisis, the main mortgage funding sources in Ukraine were:

- Credit lines of Headquarters' structures;
- Short-term deposits;
- Eurobonds;
- Covered bonds: to date, there have been two pilot issues of covered bonds (issued by Ukrgasbank and Kreschatyk Bank) ;
- Securitisation of residential mortgage loans (originated by Privatbank).

Due to the crisis from 2008 to 2011 these instruments were not actively used.

	EU27, 2011	Ukraine, 2011	Ukraine, 2010
GDP growth (%)	1.5	5.2	4.2
Unemployment rate (%)	9.7	8.2	8.1
Inflation (%)	3.1	8.0	9.4
% owner occupied	68.9	n/a	n/a
Residential Mortgage Loans as % GDP	51.7	5.6	8.4
Residential Mortgage Loans per capita, EUR thousand	13.01	0.15	0.19
Total value of Residential Loans, EUR million	6,534,919	7,005	8,778
Annual % house price growth	-1.1	-3.7	-4.8
Typical mortgage rate (euro area), %	3.49	18.25	19.25

Source: EMF, EUROSTAT, ECB, Central Bank of Ukraine, IMF

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

United States

By Dwight Jaffee and Sean Wilkoff, University of California, Berkeley

Macroeconomic overview

During 2011, the United States (US) continued to recover from its deepest recession since the Great Depression, but the rate of recovery was modest at best. Annual GDP growth rate was 1.8%, a very slow rate for the second year of a recovery. Other macroeconomic measures also indicated a slow recovery. The unemployment rate reached 8.5% by year-end 2011, a decline of almost one percentage point from a year earlier, but the improvement reflected in part a decline in the labor participation rate. Under the force of very accommodative monetary policies, interest rates continued to decline to historically extremely low levels. The 10-year Treasury bond rate, for example, fell below 2.0% at year-end 2011, while the long-term, fixed-rate, mortgage rate fell below 4.0%. Inflation measured by the consumer price indexed average 3.2% over 2011, almost double the previous year. Government budget deficits, at both the federal and local government levels, expanded as a result of the slow pace of the recovery. The US stock market was virtually unchanged during 2011, with the benefit of generally good corporate earnings offset by continuing concern for the European sovereign debt crisis.

Housing and mortgage markets

The housing and mortgage markets remained very weak throughout 2011. Home ownership rates continued to decline slightly in 2011, to 66.14%, in part as the result of continuing foreclosures on subprime mortgages. Housing starts and permits showed a very modest increase, with housing starts rising from 586 thousand to 609 thousand units in 2011. Housing completions continued to decline in 2011, while new home sales reached a new low for the past three decades, with only 302,000 sales. Existing home sales recovered slightly to 4.2 million sales during 2011. Existing home prices, after stabilizing during 2010, fell somewhat further during 2011. One bright spot was rising demand in rental markets, leading to a distinct firming in rent levels in a number of regions of the country.

Throughout 2011 and continuing into 2012, mortgage loans in the process of foreclosure and foreclosed properties in the process of resale created a major impediment to any forthcoming improvement in the US mortgage and housing markets. Government programmes to modify mortgages, and therefore to avoid delinquency and foreclosure, remained active, but failed to achieve their primary goals. The failure of the government programmes reflected inadequacy of the programmes themselves, and adverse economic incentives, and technical problems within the banks.

The regulatory themes evident in 2010 continued almost unchanged throughout 2011, without definitive progress on any item. The Dodd-Frank Financial Reform Act, passed in 2010, requires fundamental long-term changes in the US housing and mortgage markets (along with its general regulatory reforms for banking and the financial markets). However, the legislation requires the relevant government agencies to determine detailed rules, and virtually none of this was completed during 2011. The government agencies are simply missing the legislated deadlines. Perhaps the most difficult, and questionable, rule change is the requirement for lenders to retain 5% of the risk embedded in any new issues of mortgage-backed securities (MBS), the so-called “skin in the game” rule. This requirement presumes that the MBS channel created a moral hazard in which high-risk mortgages were sold to unsuspecting investors. However, subprime MBS were actually sold only to highly sophisticated investors, including a large share sold to the very same banks that were originating the loans and issuing the securities. Furthermore, the 5% risk retention requirement appears to contradict Basel III and the Dodd-Frank Act components directed to limiting bank risk-taking.

In February 2011, the Obama Administration issued its White Paper report to Congress, titled “Reforming America’s Housing Finance Market”. This contained the Administration’s long awaited proposal for redesigning the role of Fannie Mae and Freddie Mac (the so-called government sponsored enterprises, GSEs) within the US mortgage market. However, no observable progress was made during 2011 to implement any aspect of the proposal. The GSEs continue to operate under a Conservatorship that has required capital infusions from the U.S. Treasury that totaled $188 billion by year-end 2011.

The most likely implementation of the White Paper proposal will establish a government catastrophe insurance fund to limit the risk facing investors on mortgage backed securities. In theory, the first loss positions will be held by private investors. In this format, the mortgage plan would echo the insurance structure the U.S. is using to support the market for terrorism insurance on commercial properties. This plan, called TRIA for Terrorist Risk Insurance Act, puts private insurers in the first loss position for terrorist attack losses, but makes the government responsible for claims that exceed the first loss position. In the current version of TRIA, losses would have to exceed the level of the 9/11 attack before any taxpayer money would be at risk. This is the positive view of how a government mortgage insurance plan would work.

The negative form of a government mortgage insurance plan would more closely resemble the U.S. national flood insurance program. The legislation for this flood insurance program initially required risk-based premiums, with the benefit that homeowners would be deterred by high premiums from building homes in risky locations. Over time, however, the program developed subsidies and cross-subsidies such that the premiums were reduced for the most threatened locations. The effect is that the insurance program actually provides an incentive for citizens to place themselves in harm’s way. The concern is that a new large-scale government mortgage insurance programme would resemble the flood insurance program.

Overall, the implementation of the mortgage market reforms in the Dodd-Frank Act and the decision on how to replace the GSEs is going forward, but slowly. It is unlikely definitive actions will be taken during 2012.

Funding

Mortgage lending volumes continued to decline during 2011 even though mortgage interest rates were at historically low levels. Gross mortgage lending volumes fell below even the 2008 levels, while net residential lending continued its decline into a fourth year. During 2011, delinquency rates were generally reduced, with the percentage of seriously delinquent mortgages falling from 8.6% to 7.7% and the percentage of mortgages in foreclosure falling from 4.6% to 4.4%. The volume of commercial property loans outstanding continued to decline, extending the negative trend to three years.

The dominance of the three federal government programmes in residential mortgage lending continued throughout 2011, with almost 85% of all lending associated with one of the programs. The Federal Housing Administration (FHA) and Veterans Administration programs were responsible for over 21% of all residential lending and the government sponsored enterprises (GSEs, Fannie Mae and Freddie Mac operating under a government conservatorship) were responsible for 63% of all lending. Almost all of the 2011 mortgage securitization activity was also associated with these government programmes. Private market originators could not expand beyond a small market share because they were crowded out by the subsidized government programmes.

	EU27, 2011	USA, 2011	USA, 2010
GDP growth (%)	1.5	1.8	3.0
Unemployment rate (%)	9.7	9.0	9.6
Inflation (%)	3.1	3.2	1,6
% owner occupied	68.9	66.1	66.9
Residential Mortgage Loans as % GDP	51.7	76.1	76.5
Residential Mortgage Loans per capita, EUR thousand	13.01	26.42	27.01
Total value of Residential Loans, EUR million	6,534,919	8,366,856	8,242,397
Annual % house price growth	-1.1	-3.9	0.2
Typical mortgage rate (euro area), %	3.49	4.46	4.69

Source: EMF, EUROSTAT, ECB, Federal Reserve, Federal Housing Finance Agency, US Bureau of Census

Notes:

- *Typical mortgage rate euro area refers to the AAR/NDER (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data.*

USA = 2011

1. Residential Mortgage Debt to GDP ratio, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	16.4	17.7	20.5	21.9	23.4	24.0	25.5	26.7	28.0	27.8
Belgium	27.7	26.7	27.8	29.5	30.7	33.4	35.9	37.7	39.7	44.7	45.6	47.2
Bulgaria	0.4	0.5	0.7	1.1	2.5	4.3	6.6	9.3	11.2	12.3	12.4	11.7
Cyprus	5.8	6.3	7.8	9.9	11.7	30.3	37.1	43.8	49.7	61.9	69.4	71.3
Czech Republic	n/a	n/a	1.9	3.0	4.3	6.1	7.2	10.2	10.8	12.4	12.4	13.0
Denmark	67.7	71.1	74.0	78.4	79.7	84.9	89.1	92.9	95.3	104.0	100.7	100.9
Estonia	4.6	5.6	7.6	10.9	15.5	23.4	31.9	34.6	38.2	44.2	41.7	36.7
Finland	n/a	n/a	20.4	24.6	27.1	30.6	33.1	34.3	36.2	41.2	42.7	42.7
France	21.2	21.7	22.7	24.3	26.1	29.3	32.1	34.6	36.7	39.0	41.2	42.4
Germany	53.2	53.1	53.2	53.8	52.7	52.3	51.2	47.6	46.3	48.3	46.5	45.3
Greece	8.2	10.7	13.6	15.5	18.4	23.3	27.0	30.5	32.8	34.3	35.4	36.4
Hungary	1.4	2.2	4.6	7.8	9.4	12.0	14.7	17.3	21.3	24.1	25.6	22.5
Ireland	31.0	32.7	36.2	42.3	51.6	60.8	69.5	74.0	82.7	92.1	87.1	83.5
Italy	8.3	8.7	10.0	11.4	13.3	15.2	16.7	17.5	17.3	19.2	22.7	22.9
Latvia	1.6	2.4	3.9	7.3	11.8	19.2	29.3	31.6	31.2	36.8	36.2	30.0
Lithuania	1.2	1.4	2.2	4.1	6.9	10.9	12.5	17.0	18.8	22.8	21.7	19.3
Luxembourg	25.0	27.3	27.7	30.3	32.0	35.0	35.4	39.1	40.2	44.9	46.2	47.3
Malta	8.0	17.9	19.6	22.7	27.6	31.6	35.0	37.0	38.2	42.4	43.8	45.2
Netherlands	68.2	73.0	80.2	83.9	88.2	93.5	96.7	97.8	99.0	107.5	106.5	106.2
Poland	2.1	2.7	3.4	4.5	4.7	6.0	8.4	11.6	15.6	18.2	19.1	19.6
Portugal	41.5	42.8	46.3	46.4	47.8	51.7	57.3	59.7	61.2	65.7	66.3	66.6
Romania	n/a	n/a	n/a	n/a	0.5	1.0	2.2	3.2	3.7	4.9	5.4	5.5
Slovakia	n/a	n/a	3.9	4.8	6.5	8.0	9.5	12.3	13.2	15.0	16.5	17.8
Slovenia	0.3	0.4	0.8	1.0	2.9	4.8	6.3	7.7	9.1	11.1	13.7	14.5
Spain	29.9	32.5	35.9	40.0	45.7	52.3	58.1	61.4	62.0	64.4	64.7	62.1
Sweden	44.6	45.7	46.5	48.0	56.2	58.6	63.8	65.5	65.7	81.1	81.3	78.1
UK	55.8	58.0	62.1	67.4	71.2	77.5	82.2	85.0	80.4	87.7	84.5	83.7
EU27	35.7	36.8	38.9	41.0	43.2	46.2	48.6	49.5	48.6	52.0	52.4	51.7
Iceland	56.6	59.3	60.8	66.0	70.7	80.5	73.8	118.6	n/a	n/a	n/a	n/a
Norway	39.1	42.1	47.6	52.0	53.0	55.3	57.2	60.5	59.9	76.5	68.6	68.6
Russia	n/a	n/a	n/a	n/a	0.1	0.2	0.9	1.8	2.6	2.6	2.4	2.6
Turkey	n/a	n/a	n/a	0.2	0.4	2.1	2.9	3.9	3.8	4.6	5.5	5.8
Ukraine	n/a	n/a	n/a	n/a	n/a	2.6	4.8	7.4	8.2	10.9	8.4	5.6
USA	58.9	59.3	61.3	66.7	71.9	83.5	81.3	80.7	93.0	79.2	76.5	76.1

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, Eurostat, Bureau of Economic Analysis, Federal Reserve

Notes:

n/a : figure not available

- *Belgian series has been revised*
- *Cypriot series has been revised*
- *Russian series has been revised*
- *Swedish series has been revised; please note that data after 2004 is not comparable with the earlier data due to a change in the statistical source*
- *UK series has been revised*
- *US series has been revised*

2. Residential Mortgage Debt per Capita, thousand EUR

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria		3.69	4.46	4.91	5.90	6.56	7.36	7.96	8.66	8.79	9.55	9.98
Belgium	6.84	6.75	7.22	7.85	8.60	9.68	10.86	11.94	12.85	14.11	14.92	15.90
Bulgaria	0.01	0.01	0.02	0.03	0.07	0.13	0.23	0.37	0.52	0.56	0.59	0.60
Cyprus	0.85	0.98	1.23	1.62	2.04	5.53	7.11	8.98	10.88	13.17	14.98	15.74
Czech Republic	n/a	n/a	0.15	0.24	0.37	0.60	0.79	1.26	1.54	1.62	1.77	1.91
Denmark	22.05	23.82	25.45	27.45	29.10	32.52	35.90	38.81	40.62	41.96	42.88	43.52
Estonia	0.21	0.28	0.44	0.70	1.11	1.94	3.18	4.15	4.64	4.56	4.46	4.38
Finland	4.70	5.23	5.89	6.92	7.96	9.26	10.52	11.78	12.76	13.49	14.34	15.21
France	5.04	5.32	5.71	6.23	6.94	8.02	9.14	10.24	11.09	11.46	12.31	12.96
Germany	13.36	13.65	13.83	14.01	14.02	14.09	14.36	14.04	13.93	13.99	14.09	14.24
Greece	1.03	1.43	1.94	2.43	3.08	4.10	5.14	6.21	6.93	7.15	7.12	6.93
Hungary	0.07	0.13	0.32	0.57	0.77	1.05	1.31	1.73	2.25	2.24	2.48	2.28
Ireland	8.62	10.00	12.11	15.04	19.26	24.18	29.46	32.59	33.81	33.25	30.40	29.14
Italy	1.74	1.92	2.28	2.65	3.19	3.72	4.23	4.59	4.55	4.85	5.83	5.98
Latvia	0.06	0.09	0.17	0.31	0.57	1.08	2.04	2.91	3.14	3.01	2.89	2.70
Lithuania	0.04	0.05	0.10	0.19	0.37	0.66	0.88	1.43	1.80	1.80	1.80	1.83
Luxembourg	12.67	14.03	14.97	17.47	19.34	22.95	25.62	30.82	32.95	34.60	37.03	39.57
Malta	0.89	1.96	2.22	2.59	3.14	3.78	4.38	4.96	5.43	5.98	6.48	6.93
Netherlands	17.98	20.46	23.17	24.71	26.66	29.45	31.29	33.30	35.88	37.24	37.80	38.40
Poland	0.10	0.15	0.18	0.23	0.25	0.38	0.60	0.94	1.48	1.48	1.77	1.90
Portugal	4.98	5.59	6.28	6.38	6.79	7.55	8.69	9.54	9.91	10.42	10.77	10.71
Romania	n/a	n/a	n/a	n/a	0.01	0.04	0.10	0.18	0.24	0.27	0.32	0.35
Slovakia	n/a	n/a	0.19	0.26	0.41	0.57	0.78	1.26	1.58	1.75	2.00	2.16
Slovenia	0.03	0.05	0.10	0.13	0.40	0.68	0.98	1.33	1.69	1.94	2.37	2.52
Spain	4.70	5.46	6.39	7.51	9.08	11.05	13.07	14.54	14.89	14.81	14.79	14.45
Sweden	13.41	13.05	13.94	14.96	18.26	19.42	22.45	24.30	23.86	25.51	30.39	32.12
UK	15.21	16.14	17.92	18.68	21.15	23.69	26.53	28.72	23.86	22.29	23.26	23.29
EU27	6.85	7.34	8.00	8.51	9.37	10.39	11.52	12.39	12.18	12.23	12.79	13.01
Iceland	19.11	18.47	20.10	22.23	25.99	35.95	32.77	57.56	n/a	n/a	n/a	n/a
Norway	15.95	17.85	21.47	22.73	24.24	29.37	33.39	37.16	39.39	43.03	44.54	48.64
Russia	n/a	n/a	n/a	n/a	0.00	0.01	0.05	0.12	0.21	0.16	0.19	0.25
Turkey	n/a	n/a	0.00	0.01	0.02	0.11	0.18	0.26	0.29	0.29	0.42	0.43
Ukraine	n/a	n/a	n/a	n/a	n/a	0.04	0.09	0.17	0.22	0.20	0.19	0.15
USA	21.74	23.97	23.29	21.62	23.35	28.60	28.99	27.35	29.65	25.80	27.01	26.42

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat, Federal Reserve, US Bureau of Census

Notes:

- *Russian series has been revised*
- *Swedish series has been revised; please note that data after 2004 is not comparable with the earlier data due to a change in the statistical source*
- *Turkish series has been revised*
- *UK series has been revised*
- *US series has been revised*
- *EU27 series has been revised*

3. Covered Bonds as % GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	1.8	1.7	1.6	1.5	1.5	1.8	1.9	2.7	4.2
Belgium	n/a	n/a	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	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	n/a	n/a
Czech Republic	n/a	n/a	n/a	2.0	2.2	4.4	4.9	6.5	5.5	6.1	5.7	5.5
Denmark	89.5	90.0	115.2	108.6	109.7	118.8	119.0	107.5	109.3	143.6	141.1	144.1
Estonia	n/a	n/a	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	0.2	1.0	1.8	2.5	3.1	4.4	5.6	9.8
France	n/a	n/a	n/a	2.4	2.9	3.3	4.1	5.5	8.2	9.3	10.4	12.2
Germany	12.0	12.1	12.2	11.9	11.2	10.7	9.7	8.5	8.8	9.5	8.9	8.7
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.1	2.8	8.7	9.2
Hungary	n/a	n/a	n/a	4.8	6.0	5.7	6.6	5.9	6.7	7.9	6.5	5.1
Ireland	n/a	n/a	n/a	n/a	1.3	2.5	6.7	7.1	12.8	18.5	18.6	19.2
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4	0.9	1.7	3.2
Latvia	n/a	n/a	n/a	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.3	0.2
Lithuania	n/a	n/a	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	0.4	0.4	0.4	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	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	0.4	1.4	2.8	3.5	5.0	6.9	9.0
Poland	n/a	n/a	n/a	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	1.2	4.6	8.6	13.1	16.7	18.9
Romania	n/a	n/a	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	1.7	3.1	4.1	5.0	5.0	5.5	5.7	5.2	5.5
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	1.2	2.2	4.1	7.3	11.3	16.5	21.8	25.3	29.0	32.0	32.7	34.4
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	17.4	27.3	35.3	46.0	54.0	54.0
UK	n/a	n/a	n/a	0.3	0.8	1.5	2.6	4.0	11.3	12.8	12.0	11.2
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	3.5	5.3	2.9	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.2	7.1	18.6	22.3	26.3
Russia	n/a	n/a	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	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.0	0.0	n/a	n/a
USA	n/a	n/a	n/a	n/a	n/a	n/a	0.0	0.1	0.1	0.1	0.1	0.1

Source: European Covered Bond Council, Eurostat

Notes:

- *n/a : figure not available*
- *Covered bonds are debt instruments secured by a cover pool or mortgage loans (property as collateral) or public-sector debt to which investors have a preferential claim in the event of default. Data considered in this study only covered bonds backed by mortgages.*

4. Owner Occupation rate, %

	Latest data available	Owner occupation rate
Austria	2010	57.4
Belgium	2007	78.0
Bulgaria	2010	86.9
Cyprus	2010	74.7
Czech Republic	2010	78.7
Denmark	2011	53.5
Estonia	2010	85.5
Finland	2011	74.1
France	2008	57.8
Germany	2002	43.2
Greece	2010	80.1
Hungary	2011	92.0
Ireland	2010	74.5
Italy	2008	80.0
Latvia	2010	84.1
Lithuania	2010	93.1
Luxembourg	2010	68.1
Malta	2010	80.1
Netherlands	2009	55.5
Poland	2010	81.3
Portugal	2010	74.9
Romania	2011	97.5
Slovakia	2011	89.5
Slovenia	2009	78.1
Spain	2008	85.0
Sweden	2011	65.5
UK	2010	65.5
EU27	/	68.9
Iceland	2009	77.0
Norway	2003	85.0
Russia	2010	84.0
Turkey	2002	81.0
Ukraine	n/a	n/a
USA	2011	66.1

Source: European Mortgage Federation, National Statistics Office, National Central Banks, Regular National Report on Housing Developments in European countries, US Bureau of Census

Notes:

- *n/a: figures not available*
- *Finland: new source*
- *Greece: new source*
- *Swedish data has been revised*
- *UK data has been revised*
- *The EU27 average has been weighted with the national dwelling stocks*

5. Total dwelling stock, thousand units

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	3,727	3,755	n/a	3,822	3,846	3,872	3,910	3,947	3,983	4,016	n/a	n/a
Belgium	4,659	4,711	4,744	4,782	4,820	4,858	4,903	4,950	4,996	5,043	5,087	5,131
Bulgaria	n/a	3,352	3,697	3,697	3,705	3,716	3,729	n/a	3,767	n/a	n/a	n/a
Cyprus	288	293	299	305	314	325	341	358	374	392	409	n/a
Czech Republic	n/a	4,366	4,394	4,421	4,453	4,486	4,516	4,558	4,596	4,635	4,671	4,700
Denmark	2,526	2,541	2,554	2,572	2,592	2,621	2,645	2,670	2,696	2,722	2,737	2,798
Estonia	621	622	623	624	626	629	633	638	645	651	654	656
Finland	2,295	2,329	2,354	2,378	2,402	2,430	2,454	2,477	2,499	2,517	2,537	2,556
France	29,133	29,451	29,768	30,096	30,425	n/a	32,026	32,515	32,842	n/a	n/a	n/a
Germany	38,384	38,682	38,925	39,141	39,362	39,551	39,753	39,918	40,058	40,184	40,319	40,460
Greece	5,476	5,581	5,705	5,829	5,947	6,136	6,257	6,357	6,434	6,493	6,545	6,572
Hungary	n/a	3,724	n/a	n/a	4,134	4,173	4,209	4,238	4,270	4,303	4,331	4,349
Ireland	1,406	1,448	1,506	1,575	1,652	1,733	1,841	1,919	1,971	1,997	2,012	n/a
Italy	27,422	27,864	28,329	28,813	29,289	29,771	30,360	31,211	32,574	n/a	33,074	n/a
Latvia	796	877	958	967	987	998	1,018	1,036	1,042	1,035	n/a	n/a
Lithuania	1,309	1,292	1,295	1,293	1,300	1,300	1,307	1,316	1,328	1,337	1,341	1,346
Luxembourg	118	120	121	122	124	125	n/a	n/a	175	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	125	133	135	n/a	n/a	192315
Netherlands	6,590	6,651	6,710	6,764	6,810	6,859	6,912	6,967	7,029	7,104	7,172	n/a
Poland	11,845	11,946	11,763	12,596	12,758	12,872	12,987	12,994	13,150	13,302	13,422	n/a
Portugal	5,007	5,107	5,232	5,324	5,398	5,473	5,539	5,603	5,659	5,708	5,751	n/a
Romania	7,908	8,107	8,129	8,152	8,177	8,202	8,231	8,271	8,399	8,385	n/a	n/a
Slovakia	n/a	1,885	1,899	1,913	1,926	1,940	1,955	1,970	1,987	2,006	2,023	2,036
Slovenia	712	719	785	791	798	805	812	820	830	838	844	850
Spain	20,376	21,058	21,762	22,425	23,175	23,918	24,626	25,377	26,231	26,769	26,953	26,998
Sweden	4,294	4,308	4,329	4,351	4,380	4,404	4,436	4,470	4,503	4,527	4,508	4,524
UK	25,281	25,470	25,618	25,798	25,985	26,197	26,419	26,656	26,911	27,108	27,264	n/a
Iceland	105	107	109	111	114	117	121	126	129	130	131	131
Norway	1,942	1,962	1,982	2,003	2,026	2,054	2,082	2,112	2,140	2,161	2,179	2,197
Russia	55,100	55,600	56,000	56,400	56,900	57,425	57,983	58,572	59,012	59,546	60,126	n/a
Turkey	15,070	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	18,921	18,960	19,023	19,049	19,075	19,132	19,107	19,183	19,255	19,288	19,322	n/a
USA	119,628	121,480	119,297	120,834	122,187	123,925	126,012	127,958	130,113	130,159	130,599	132,292

Source: European Mortgage Federation National Experts, National Statistics Offices

Notes:

- *n/a : figure not available*
- *Austrian series has been revised; new series from 2003 (Euroconstruct)*
- *Greek series has been revised*
- *Italian series has been revised*
- *Portuguese series has been revised*
- *Data from most countries comes from irregular surveys, Where data is available, data in this table has been estimated on the basis of previous average growth rates, checked against additions to new supply and preojected forward where appropriate,*

6. Housing Starts

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	39,000	37,000	36,450	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	41,087	42,047	39,374	41,134	46,193	54,569	57,895	54,600	50,473	44,443	45,538	37,429
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,009	7,096
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	32,377	28,983	33,606	36,496	39,037	40,381	43,747	43,796	43,531	37,319	28,135	27,535
Denmark	16,306	20,874	22,849	27,004	28,707	34,050	36,371	26,225	17,070	9,673	13,575	10,996
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	31,690	26,996	27,766	31,019	32,029	33,946	33,503	30,175	22,903	22,415	32,833	31,091
France	309,500	303,000	302,900	322,600	363,400	410,200	420,900	435,400	368,600	298,800	309,744	378,561
Germany	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	89,389	108,021	128,296	127,051	122,148	195,207	125,387	103,865	79,601	61,490	52,344	29,974
Hungary	n/a	n/a	n/a	n/a	42,437	35,545	29,208	27,396	22,314	8,985	n/a	n/a
Ireland	n/a	n/a	n/a	n/a	77,691	77,709	75,602	48,876	22,852	8,604	6,410	n/a
Italy	184,424	189,025	209,228	229,526	268,385	278,602	261,455	250,271	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	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	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	n/a	n/a
Malta	n/a	n/a	n/a	6,128	6,707	9,081	10,409	11,343	n/a	n/a	n/a	3,955
Netherlands	80,100	74,700	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	125,000	114,000	77,000	82,000	97,000	102,038	137,962	185,117	174,686	142,901	158,064	162,200
Portugal	n/a	n/a	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	32,950	31,702	37,798	49,795	66,817	87,643	143,139	n/a	n/a	n/a
Slovakia	9,884	12,128	14,607	14,065	16,586	19,796	20,592	18,116	28,321	20,325	16,211	12,740
Slovenia	5,000	6,000	5,000	7,000	6,000	8,000	9,000	11,000	7,000	n/a	4,831	3,844
Spain	535,668	499,605	524,182	636,332	687,051	729,652	865,561	651,427	264,795	111,140	91,662	82,984
Sweden	16,900	19,500	19,100	22,100	27,400	32,000	45,600	28,000	21,500	17,500	26,500	22,500
UK	186,190	192,070	194,370	208,570	227,990	223,900	223,970	228,650	134,500	106,820	130,840	n/a
Iceland	1,643	1,811	2,360	2,688	2,751	4,393	3,746	4,446	3,172	192	321	142
Norway	22,536	24,191	22,216	22,263	29,399	30,800	32,730	31,223	24,921	18,281	20,148	27,507
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	765,600	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	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	n/a	n/a
USA	1,568,700	1,602,700	1,704,900	1,847,700	1,955,800	2,068,300	1,800,900	1,355,000	905,500	554,000	586,900	609,000

Source : European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat, US Bureau of Census

Notes:

- *n/a: figures not available*
- *Danish series has been revised*
- *Finnish series has been revised*
- *Greek series has been revised*
- *Hungarian series has been revised*
- *Spanish series has been revised*

7. Housing Completions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	53,760	45,850	41,914	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	40,253	38,255	36,386	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	8,267	12,059	13,270	18,864	20,924	22,058	15,771	13,953
Cyprus	5,083	6,641	6,059	8,734	11,013	16,416	16,647	16,501	18,195	16,644	13,434	n/a
Czech Republic	25,207	24,759	27,291	27,127	32,268	32,863	30,190	41,649	38,380	38,473	36,442	28,630
Denmark	16,332	17,429	18,817	23,784	26,343	27,376	29,044	31,483	27,086	18,892	11,461	11,422
Estonia	720	619	1,135	2,435	3,105	3,928	5,068	7,073	5,300	3,026	2,324	1,918
Finland	32,290	30,143	26,667	27,667	30,398	33,754	33,557	34,983	29,995	21,438	25,113	31,117
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Germany	423,062	326,197	289,601	268,096	278,008	242,316	249,436	210,739	175,927	158,987	159,832	164,000
Greece	90,547	86,001	90,197	106,777	120,919	120,912	135,267	163,628	121,909	89,956	65,875	48,812
Hungary	21,583	28,054	31,511	35,543	43,913	41,084	33,864	36,159	36,075	31,994	20,823	11,766
Ireland	49,812	52,602	57,695	68,819	76,954	80,957	93,419	78,027	51,724	26,420	14,620	n/a
Italy	160,000	195,000	210,000	214,000	238,000	296,000	317,000	309,000	281,000	246,000	204,000	n/a
Latvia	899	800	794	828	2,821	3,807	5,862	9,319	8,084	4,187	1,918	2,662
Lithuania	4,463	3,785	4,562	4,628	6,804	5,900	7,286	9,315	11,829	9,400	3,667	5,066
Luxembourg	1,671	2,342	2,475	2,199	2,155	1,979	2,266	3,023	3,636	3,092	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,298	n/a	n/a
Netherlands	70,650	72,958	66,704	59,629	65,314	67,016	72,382	80,193	78,882	82,932	55,999	n/a
Poland	87,800	106,105	97,595	162,000	108,123	114,060	115,187	133,778	165,192	160,019	135,818	131,148
Portugal	112,564	115,118	125,603	92,039	74,085	75,840	68,473	66,910	58,257	50,588	43,309	37,427
Romania	26,400	27,041	27,722	29,125	30,127	32,868	39,638	47,299	67,255	62,520	48,800	45,419
Slovakia	12,931	10,321	14,213	13,980	12,592	14,863	14,444	16,473	17,184	18,834	17,076	14608
Slovenia	7,000	7,000	7,000	7,000	7,000	8,000	8,000	8,000	10,000	8,561	6,352	5,467
Spain	366,775	365,660	426,738	459,135	496,785	524,479	585,583	641,419	615,072	387,075	257,443	167,914
Sweden	13,000	15,400	19,900	20,000	25,300	23,000	29,800	30,500	32,000	22,800	19,500	20,300
UK	176,860	174,090	181,960	190,490	203,490	209,580	212,800	225,330	182,960	152,640	134,080	n/a
Iceland	1,258	1,711	2,140	2,311	2,355	3,106	3,294	3,348	2,978	893	1,148	565
Norway	18,873	22,147	20,856	20,526	22,809	28,398	28,103	29,677	28,083	21,238	17,446	19,067
Russia	373,000	382,000	396,000	427,000	477,000	515,000	609,000	722,000	768,000	702,000	717,000	788,200
Turkey	n/a	n/a	161,374	162,781	164,734	240,269	294,269	325,255	356,358	468,133	427,878	547,635
Ukraine	63,000	65,000	64,000	62,000	71,000	76,000	82,000	n/a	n/a	n/a	n/a	n/a
USA	1,573,700	1,570,800	1,648,400	1,678,700	1,841,900	1,931,400	1,979,400	1,502,800	1,119,700	794,400	651,700	585,000

Source: European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census

Notes:

- *n/a: figures not available*
- *Danish series has been revised*
- *Finnish series has been revised*
- *Italian series has been revised*
- *Portuguese series has been revised*
- *Turkey: new source*

8. Building Permits

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	41,460	40,229	42,281	43,500	43,500	43,800	47,400	45,700	41,400	40,700	39,100	n/a
Belgium	42,921	41,284	43,149	45,032	52,204	59,378	61,155	53,922	52,611	45,423	49,744	44,734
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	53,049	64,185	49,407	20,166	12,832	10,973
Cyprus	6,096	6,499	6,856	7,548	8,252	9,098	9,794	9,521	8,896	8,950	8,777	7,506
Czech Republic	45,100	45,279	45,961	51,948	51,464	47,974	49,777	47,298	47,389	41,954	39,158	39,656
Denmark	17,200	20,646	23,963	27,521	29,791	35,976	36,442	24,115	16,458	8,908	16,000	13,084
Estonia	1,076	1,430	3,156	3,419	9,447	9,151	12,863	8,925	5,468	2,081	2,581	2,830
Finland	36,258	29,580	30,762	35,453	34,599	36,964	35,543	33,073	26,516	26,559	32,793	33,894
France	358,800	356,200	350,900	385,300	460,800	511,700	561,700	547,800	455,700	348,300	396,046	465,937
Germany	350,549	291,084	274,120	296,854	268,123	240,468	247,541	182,336	174,595	177,939	187,667	228,143
Greece	35,200	40,448	45,195	45,253	43,447	56,342	45,406	41,790	34,021	27,447	23,380	15,114
Hungary	44,709	47,867	48,762	59,241	57,459	51,490	44,826	44,276	43,862	28,400	17,353	12,488
Ireland	26,332	23,613	19,728	20,949	27,512	25,334	22,774	22,253	17,491	10,380	6,347	n/a
Italy	184,424	189,025	209,228	229,526	268,385	278,602	261,455	250,271	191,783	n/a	n/a	n/a
Latvia	n/a	2,256	2,838	3,421	4,962	6,003	7,246	6,414	4,507	2,663	n/a	n/a
Lithuania	2,038	2,053	2,415	2,989	4,155	5,500	7,482	8,869	8,189	5,994	5,876	4,824
Luxembourg	3,411	2,846	2,956	3,364	3,919	4,692	4,411	4,934	4,017	3,695	3,891	4,323
Malta	3,970	4,180	5,841	6,128	6,707	9,081	10,409	11,343	6,386	5,298	4,444	3,955
Netherlands	78,563	62,326	67,183	72,454	76,180	83,273	96,447	87,918	87,198	72,646	61,028	n/a
Poland	70,000	81,000	39,000	61,000	105,831	115,862	160,545	236,731	223,372	168,440	165,116	184,146
Portugal	44,469	43,381	41,385	36,596	33,423	32,800	31,004	28,406	22,570	16,059	14,797	11,683
Romania	n/a	n/a	n/a	n/a	n/a	43,542	51,065	56,618	61,092	48,833	42,026	47,579
Slovakia	9,884	12,128	14,607	14,065	16,586	19,796	20,592	18,116	28,321	20,325	16,211	12,740
Slovenia	4,000	4,000	4,000	5,000	6,000	6,000	8,000	9,000	8,000	5,209	4,225	3,285
Spain	439,682	393,827	403,271	471,000	543,518	603,633	734,978	633,430	267,876	130,418	91,509	62,371
Sweden	18,500	22,000	18,700	25,300	28,400	34,300	45,300	28,800	24,800	21,500	27,900	28,500
UK	n/a	n/a	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	2,336	2,319	2,287	1,466	1,177	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	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	n/a	n/a
Turkey	n/a	n/a	161,431	202,237	329,774	510,080	597,786	581,029	501,005	516,229	911,672	642,972
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USA	1,592,300	1,636,700	1,747,700	1,889,200	2,070,100	2,155,300	1,838,900	1,398,400	905,400	583,000	604,600	624,100

Source: European Mortgage Federation National Experts, National Statistics Offices ,US Bureau of Census

Notes:

- *n/a: figures not available*
- *Finnish series has been revised*
- *Greek series has been revised*
- *Italian series has been revised; please note that the 2008 and 2009 figures are estimates*
- *Maltese series has been revised*
- *Portuguese series has been revised*
- *Spanish series has been revised*
- *Turkey: new source*

9. Number of Transactions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	108,073	110,973	116,142	119,935	118,777	118,669	121,136	125,565	121,423	114,916	127,838	127,328
Bulgaria	n/a	n/a	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	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	n/a	n/a
Denmark	71,290	67,953	67,982	70,568	79,566	85,196	71,905	70,225	53,248	46,215	52,955	43,408
Estonia	38,264	41,817	40,523	46,972	50,589	62,905	62,824	49,788	34,431	26,550	31,447	32,505
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	70,245	71,001	73,991	72,024
France	785,000	778,000	792,000	803,000	804,000	802,000	n/a	810,000	673,000	594,000	784,000	858,000
Germany	483,000	498,000	500,000	492,000	441,000	503,000	442,000	457,000	456,000	477,000	514,000	570,000
Greece	n/a	n/a	158,599	149,629	165,988	215,148	172,897	167,699	157,978	135,967	117,948	n/a
Hungary	183,950	178,532	230,979	270,574	171,678	193,792	225,734	191,170	154,097	91,137	90,300	87,700
Ireland	80,856	69,062	93,136	97,888	104,305	110,495	110,790	84,194	53,616	25,097	18,313	n/a
Italy	690,476	681,266	761,520	762,086	804,126	833,350	845,051	806,225	686,587	609,145	611,878	598,224
Latvia	22,473	31,647	40,524	51,306	63,600	68,700	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	n/a	n/a
Luxembourg	4,613	4,791	5,170	5,058	4,908	5,011	n/a	3,177	3,001	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	n/a	n/a
Netherlands	189,358	195,737	198,386	193,406	191,941	206,629	209,767	202,401	182,392	127,532	126,127	n/a
Poland	n/a	n/a	243,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	346,188	326,732	329,301	300,105	276,292	300,044	285,483	281,367	241,040	205,442	209,323	n/a
Romania	n/a	n/a	n/a	n/a	n/a	535,000	682,000	521,000	484,000	352,000	352,000	371,569
Slovakia	n/a	n/a	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	4,900	n/a	10,788	10,578
Spain	n/a	n/a	n/a	n/a	848,390	901,574	955,186	836,871	564,464	463,719	491,287	347,305
Sweden	123,338	122,770	127,912	135,414	141,035	149,072	151,448	163,676	146,882	146,582	152,072	143,936
UK	n/a	n/a	n/a	n/a	n/a	n/a	1,670,000	1,613,000	901,000	859,000	886,000	867,000
Iceland	8,852	8,456	9,096	10,701	12,761	13,415	9,876	13,163	5,218	3,039	4,012	5,887
Norway	151,815	156,391	158,882	161,775	167,456	177,094	179,280	183,035	166,789	166,013	173,607	180,576
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,744,432	3,663,706
Turkey	n/a	n/a	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	n/a	n/a
USA	6,051,000	6,243,000	6,605,000	7,261,000	7,981,000	8,359,000	7,529,000	5,816,000	4,595,000	4,715,000	4,513,000	4,562,000

Source: European Mortgage Federation National Experts, National Central Banks, National Statistics Offices, US Bureau of Census

Notes:

- *n/a: figures not available*
- *Belgium: transactions on second hand houses only*
- *Denmark: excludes self build*
- *Estonian series has been revised*
- *Finland: all dwellings; new source*
- *France: new appartments as principal and secondary residence or rental; series has been revised*
- *Hungarian series has been revised*
- *Icelandic series has been revised*
- *Ireland: estimate based on mortgage approvals*
- *Italian series has been revised*
- *Netherlands: includes commercial transactions; Dutch series has been revised*
- *Norwegian series has been revised*
- *Portugal: urban areas only - includes commercial transactions*
- *Russian series has been revised*
- *Swedish series has been revised: from year 2000 not only one-family homes are included in the transaction figures but also apartment transactions*
- *UK series has been revised, based on a new HM Revenue and Customs series for the UK – before that the source was the Land Registry figures, which are England and Wales only, but have switched to the more comprehensive series.*
- *USA: number of existing home sales; series has been revised*

10. Nominal House Price Indices, 2000=100

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	100,0	103,1	113,0	121,4	128,6	168,2	188,0	204,2	210,9	215,1	224,5	232,8
Bulgaria	n/a	n/a	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	n/a	n/a
Czech Republic	100,0	106,9	132,5	146,7	146,5	148,3	148,4	191,8	217,1	204,4	198,4	n/a
Denmark	100,0	102,7	106,0	113,1	127,3	157,7	182,2	184,0	165,9	161,3	164,5	151,4
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	100,0	99,1	106,5	113,3	121,6	129,0	138,6	146,2	147,1	146,7	159,5	163,7
France	100,0	108,0	118,9	134,0	155,4	178,4	196,1	206,9	198,8	190,5	205,0	213,1
Germany	100,0	101,0	101,0	100,0	100,6	104,2	104,5	104,2	108,7	107,3	108,0	110,2
Greece	100,0	114,4	130,3	137,3	140,5	155,8	176,4	186,9	190,0	183,0	174,4	165,2
Hungary	100,0	117,3	134,5	160,4	173,0	177,2	186,3	195,2	197,3	184,9	174,4	170,8
Ireland	100,0	104,5	118,4	134,4	146,2	159,9	178,7	166,4	151,8	123,7	110,3	91,9
Italy	100,0	105,7	118,4	125,6	133,3	143,2	155,2	164,8	169,6	168,8	169,1	170,1
Latvia	n/a	n/a	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	n/a	n/a
Luxembourg	100,0	110,4	121,2	136,0	154,4	172,2	178,2	180,9	185,8	181,9	190,1	197,9
Malta	100,0	104,3	110,6	122,8	153,8	160,3	175,0	171,9	167,3	158,9	160,6	n/a
Netherlands	100,0	111,1	118,3	122,5	127,7	132,7	138,7	144,6	148,8	143,9	141,0	136,2
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	100,0	105,4	106,0	107,2	107,9	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	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	n/a	n/a
Spain	100,0	111,1	130,4	154,5	181,1	204,2	222,8	233,5	226,0	211,8	204,4	190,5
Sweden	100,0	108,0	114,8	122,4	134,2	147,1	163,9	181,4	186,7	190,5	204,6	206,1
UK	100,0	108,4	126,8	146,7	164,1	173,1	184,0	204,1	202,1	186,4	199,9	197,9
Iceland	100,0	106,3	111,3	124,5	140,4	190,0	214,1	235,9	245,0	221,6	213,1	223,8
Norway	100,0	107,0	112,3	114,2	125,8	136,2	154,9	174,4	172,5	175,8	190,3	205,6
Russia	n/a	n/a	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	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	n/a	n/a
USA	100,0	106,6	114,9	124,5	136,1	152,9	154,5	152,5	138,0	120,1	120,4	115,7

Source: European Mortgage Federation, National Statistics Offices, OECD, ECB (for the euro area), US Bureau of Census

Notes:

- *n/a: figures not available*
- *Finland: new source*

11. Nominal House Prices, annual % change

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	3.5	-0.3	0.4	-2.7	4.8	3.1	3.7	0.0	3.0	5.1	3.1
Belgium	3.9	3.1	9.6	7.4	6.0	30.8	11.8	8.6	3.3	2.0	4.4	3.7
Bulgaria	-0.8	0.3	1.8	12.2	47.5	36.6	14.7	28.9	24.9	-21.4	-10.1	-6.1
Cyprus	n/a	n/a	n/a	8.0	20.0	12.0	-6.0	21.8	16.7	-4.1	-2.5	-5.2
Czech Republic	14.4	6.9	23.9	10.7	-0.1	1.2	0.1	29.2	13.2	-5.9	-2.9	n/a
Denmark	7.4	2.7	3.2	6.6	12.6	23.9	15.5	1.0	-9.8	-2.8	1.9	-7.9
Estonia	n/a	n/a	16.9	19.7	42.7	32.7	48.3	14.3	-13.5	-35.9	0.1	9.9
Finland	5.9	-0.9	7.4	6.4	7.3	6.1	7.5	5.5	0.6	-0.3	8.7	2.7
France	7.9	8.0	10.1	12.7	16.0	14.8	9.9	5.5	-3.9	-4.2	7.6	4.0
Germany	1.0	1.0	0.0	-1.0	0.6	3.6	0.3	-0.3	4.3	-1.3	0.7	2.0
Greece	10.6	14.4	13.9	5.4	2.3	10.9	13.2	5.9	1.7	-3.7	-4.7	-5.3
Hungary	46.2	17.3	14.7	19.3	7.8	2.4	5.2	4.8	1.0	-6.3	-5.7	-2.1
Ireland	21.2	4.5	13.3	13.6	8.8	9.3	11.8	-6.9	-8.8	-18.5	-10.8	-16.7
Italy	3.9	5.7	11.9	6.1	6.1	7.4	8.4	6.2	2.9	-0.5	0.2	0.6
Latvia	n/a	n/a	14.0	17.5	9.4	12.9	60.7	4.2	-18.4	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	n/a	n/a
Luxembourg	6.4	10.4	9.8	12.2	13.6	11.5	3.5	1.5	2.7	-2.1	4.5	4.1
Malta	3.2	4.3	6.0	11.0	25.2	4.2	9.2	-1.8	-2.7	-5.0	1.1	1.8
Netherlands	18.2	11.1	6.5	3.6	4.3	3.8	4.6	4.2	2.9	-3.3	-2.0	-3.4
Poland	n/a	n/a	n/a	n/a	n/a	n/a	39.6	36.9	3.9	-0.9	4.2	n/a
Portugal	7.8	5.4	0.6	1.1	0.6	2.3	2.1	1.3	3.9	0.4	1.8	-0.2
Romania	n/a	n/a	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	39.6	15.5	-10.3	16.8	23.9	22.1	-11.1	-3.9	n/a
Slovenia	n/a	n/a	n/a	n/a	10.4	15.6	17.6	22.6	3.1	-8.2	2.8	n/a
Spain	7.7	11.1	17.3	18.5	17.2	12.8	9.1	4.8	-3.2	-6.3	-3.5	-6.8
Sweden	11.0	8.0	6.3	6.6	9.6	9.6	11.4	10.7	2.9	2.0	7.4	0.7
UK	14.3	8.4	17.0	15.7	11.8	5.5	6.3	10.9	-0.9	-7.8	7.2	-1.0
EU27	10.6	6.6	9.7	11.0	12.2	11.0	13.0	9.9	2.0	-5.9	0.5	-1.1
Iceland	17.0	6.3	4.7	11.8	12.8	35.3	12.7	10.2	3.9	-9.5	-3.8	5.0
Norway	15.7	7.0	5.0	1.7	10.2	8.3	13.7	12.6	-1.1	1.9	8.3	8.0
Russia	16.3	32.0	25.3	18.8	24.1	18.0	54.4	20.6	15.3	-11.0	2.7	5.8
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-11.3	2.7	2.7	7.8
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	65.3	14.0	3.2	-30.6	-4.8	-3.7
USA	4.1	6.6	7.8	8.4	9.3	12.4	1.0	-1.3	-9.5	-12.9	0.2	-3.9

Source: European Mortgage Federation, National Statistics Offices, OECD, ECB (for the euro area), US Bureau of Census

Notes:

- *n/a: figures not available*
- *Austria: new series from 2000; other areas than Vienna*
- *Belgium: average prices of existing houses; series has been revised*
- *Cyprus: new and existing houses and flats; series has been revised*
- *Denmark: all dwellings; series has been revised*
- *Estonia: new and existing dwellings, whole country, not seasonally adjusted; series has been revised*
- *EU27: The EU27's value is the average of the 27 EU national markets*
- *Finland: new series from 2000; another break in series in 2005*
- *France: second hand dwellings only*
- *Germany: from 1998 to 2002, Deutsche Bundesbank calculations based on data provided by BulwienGesa AG; from 2003 to 2009, vdp Price Index for Single Family Houses, calculated by vdpResearch*
- *Greece: urban areas only; new series from 2007*
- *Hungary: all dwellings, FHB Index*
- *Iceland: Reykjavik capital region*
- *Ireland: average price of all residential property approved for mortgage*
- *Italy: from 1997 to 2004 ECB residential property price index (series has been revised); from 2005 onwards Agenzia del Territorio and Nomisma*
- *Latvia: annual growth rate of average price of detached single family houses*
- *Netherlands: all dwellings; series has been revised*
- *Norway: new series from 2005*
- *Poland: new series from 2007*
- *Portugal: new series (Confidencial Imobiliário) from 2005*
- *Slovakia: ECB residential property price index (all dwellings)*
- *Slovenia: second-hand dwellings (all dwellings)*
- *Sweden: one and two dwellings buildings*
- *Turkey: new series (all dwellings)*
- *UK: House Price Index (all dwellings) from the Office for National Statistics; series has been revised*
- *Ukraine: new dwellings; series has been revised*
- *USA: all dwellings includes condominiums and coops, national; median*

12. Residential Construction Price Index, annual % change

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	1.4	1.8	1.3	1.5	3.0	2.6	2.9	4.3	4.8	2.2	1.8	n/a
Belgium	n/a	5.7	1.5	2.3	5.3	3.7	5.9	2.6	4.5	-3.9	3.1	2.4
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	0.0	5.8	7.5	12.2	16.8	7.7	5.6	5.1	8.1	-3.0	-1.8	-0.9
Czech Republic	-0.6	4.5	2.3	6.4	4.7	7.5	5.6	4.8	6.2	5.8	6.9	n/a
Denmark	2.3	3.7	2.2	2.6	2.0	2.3	4.7	6.3	2.9	-0.4	1.2	3.6
Estonia	2.3	5.8	4.2	3.6	5.6	6.5	10.5	12.6	3.4	-8.5	-2.8	3.4
Finland	3.3	1.4	1.4	1.6	3.8	3.2	5.0	5.6	1.6	-1.0	2.5	3.1
France	2.7	1.1	2.8	3.6	4.5	5.0	5.6	4.8	3.4	-1.1	1.8	6.9
Germany	0.0	0.0	0.0	0.0	1.6	0.8	1.6	7.0	2.9	0.7	0.7	2.8
Greece	2.3	2.2	3.0	2.5	3.0	3.2	5.0	3.4	2.7	n/a	n/a	n/a
Hungary	11.7	10.4	5.7	3.9	5.9	3.5	6.5	6.6	7.8	2.4	-0.6	1.4
Ireland	3.8	18.2	6.2	2.6	3.1	2.7	3.8	4.1	3.5	-1.2	1.2	n/a
Italy	3.1	9.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	-2.3	0.1	2.4	11.8	20.2	58.0	4.3	-13.8	n/a	n/a	n/a
Lithuania	-1.3	-1.4	0.5	1.0	5.0	1.4	2.0	5.3	-5.7	n/a	n/a	n/a
Luxembourg	3.1	4.2	2.6	2.0	2.9	3.1	2.6	3.1	3.2	1.1	0.7	2.9
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	5.0	7.2	10.4	4.1	-2.6	2.1	10.0	4.9	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	3.0	2.9	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	3.3	1.7	3.8	2.5	3.5	3.6	5.6	-0.8	1.9	1.5
Romania	n/a	n/a	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	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	n/a	n/a
Spain	6.0	0.0	3.5	1.4	7.0	n/a	7.0	4.9	4.9	0.8	-7.4	-5.9
Sweden	4.5	4.5	3.5	2.6	3.1	3.8	5.2	6.3	5.0	0.8	2.5	3.3
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	3.0	5.7	7.6	3.3	4.1	5.4	7.8	9.7	14.4	15.2	4.1	5.6
Norway	4.6	5.0	2.9	3.7	2.7	3.3	3.8	7.4	5.7	2.4	3.1	3.7
Russia	40.5	15.2	14.7	10.6	18.6	15.8	14.9	21.2	18.6	-2.4	9.6	9.3
Turkey	42.9	56.5	35.9	21.3	14.6	10.0	18.6	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	n/a	n/a
USA	n/a	n/a	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 : figure not available*
- *Austrian series has been revised; break in series in 2005*
- *Cyprus: new series from 2000*
- *Estonian series has been revised*
- *Finland: new source*
- *French series has been revised*
- *Hungary: new series from 2000 ; series has been revised*
- *Icelandic series has been revised*
- *Portugal: new series from 2001*
- *Russia: new series from 1998*
- *Spain: new series from 2005 ; series has been revised*

13. Total Outstanding Residential Loans, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	29,632	35,998	39,746	48,078	53,815	60,737	65,897	72,061	73,455	80,000	83,863
Belgium	69,988	69,240	74,460	81,344	89,414	101,092	114,105	126,383	137,016	151,738	161,723	174,153
Bulgaria	54	79	120	205	510	1,006	1,745	2,868	3,960	4,292	4,453	4,503
Cyprus	584	680	870	1,162	1,487	4,140	5,450	6,989	8,584	10,492	12,033	12,658
Czech Republic	n/a	n/a	1,528	2,419	3,772	6,114	8,140	12,959	16,012	16,975	18,557	20,161
Denmark	117,517	127,406	136,649	147,782	157,079	175,992	194,866	211,381	222,403	231,263	237,313	241,996
Estonia	286	387	593	954	1,500	2,618	4,278	5,568	6,228	6,116	5,971	5,869
Finland	24,308	27,096	30,599	36,047	41,543	48,489	55,307	62,172	67,632	71,860	76,747	81,781
France	305,300	324,600	350,700	385,400	432,300	503,600	577,800	651,900	710,000	737,600	796,600	843,200
Germany	1,097,914	1,122,809	1,139,830	1,156,341	1,157,026	1,162,588	1,183,834	1,155,742	1,145,404	1,146,969	1,152,195	1,163,783
Greece	11,272	15,652	21,225	26,778	34,052	45,420	57,145	69,363	77,700	80,559	80,507	78,393
Hungary	715	1,286	3,262	5,805	7,766	10,608	13,242	17,457	22,629	22,425	24,853	22,719
Ireland	32,546	38,343	47,212	59,621	77,615	99,416	123,988	140,562	148,803	147,947	135,806	130,568
Italy	99,331	109,107	130,166	151,975	184,582	217,329	248,758	271,215	271,326	291,160	352,007	362,409
Latvia	133	220	389	722	1,311	2,486	4,677	6,647	7,135	6,808	6,498	6,020
Lithuania	146	185	337	669	1,259	2,270	2,999	4,853	6,060	6,032	5,983	5,934
Luxembourg	5,494	6,157	6,647	7,830	8,797	10,586	12,018	14,676	15,940	17,077	18,591	20,255
Malta	337	768	878	1,030	1,256	1,522	1,775	2,021	2,228	2,472	2,684	2,893
Netherlands	285,252	327,045	373,198	400,153	433,383	480,191	511,156	544,697	588,552	613,877	626,580	639,558
Poland	3,968	5,764	7,061	8,693	9,642	14,646	22,795	35,966	56,539	56,630	67,669	72,501
Portugal	50,735	57,365	64,838	66,425	71,101	79,452	91,896	101,094	105,209	110,685	114,515	113,926
Romania	n/a	n/a	n/a	n/a	294	766	2,176	3,932	5,199	5,718	6,800	7,600
Slovakia	n/a	n/a	1,011	1,415	2,196	3,078	4,212	6,773	8,536	9,469	10,849	11,751
Slovenia	65	99	201	263	800	1,368	1,956	2,670	3,398	3,933	4,844	5,164
Spain	188,165	220,913	261,921	312,916	384,631	475,571	571,803	646,676	674,434	678,872	680,208	666,946
Sweden	118,828	115,918	124,159	133,794	163,905	174,974	203,085	221,434	219,111	236,167	283,845	302,457
UK	894,105	952,408	1,061,408	1,110,477	1,262,443	1,422,172	1,602,576	1,745,907	1,459,856	1,372,861	1,442,453	1,453,859
EU27	3,307,043	3,553,159	3,875,260	4,139,964	4,577,743	5,101,309	5,682,520	6,137,803	6,061,955	6,113,451	6,410,285	6,534,919
Iceland	5,333	5,233	5,759	6,412	7,551	10,553	9,828	17,710	n/a	n/a	n/a	n/a
Norway	71,416	80,370	97,129	103,460	110,967	135,287	154,937	173,954	186,577	206,491	216,379	239,313
Russia	n/a	n/a	n/a	n/a	600	1,548	6,825	17,124	29,760	23,199	27,071	35,152
Turkey	n/a	n/a	320	464	1,481	7,772	12,929	18,142	20,593	20,624	30,435	31,894
Ukraine	n/a	n/a	n/a	n/a	n/a	1,787	4,101	7,716	10,133	9,148	8,778	7,005
USA	6,344,121	6,811,698	6,900,440	6,569,050	6,850,428	8,468,782	8,664,701	8,256,662	9,035,508	7,930,104	8,366,856	8,242,397

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

Notes:

- *n/a: figures not available*
- *Please note that Swedish data after 2004 is not comparable with the earlier data due to a change in the statistical source*
- *Danish series has been revised*
- *Norwegian series has been revised*
- *Russian series has been revised*
- *Turkish series has been revised*
- *US series has been revised*

14. Gross Residential Loans, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	9,513	9,622	11,688	18,134	17,264	25,198	24,323	22,825	21,531	22,424	26,768	28,074
Bulgaria	n/a	n/a	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	n/a	n/a
Czech Republic	n/a	n/a	735	1,202	1,590	2,609	4,094	5,395	4,935	2,689	3,216	4,757
Denmark	18,818	33,509	33,870	52,551	46,489	77,592	49,993	43,272	36,964	49,703	47,453	29,716
Estonia	120	176	301	508	806	1,471	2,339	2,137	1,434	446	419	490
Finland	7,487	8,788	10,404	13,139	14,686	18,555	19,756	21,215	19,669	16,161	18,526	20,124
France	63,700	66,200	78,500	95,800	113,400	134,500	149,080	146,800	122,000	89,000	158,000	136,248
Germany	116,500	110,900	103,400	112,300	108,600	109,600	114,200	119,600	121,300	114,600	134,000	145,600
Greece	n/a	n/a	n/a	5,905	8,036	13,610	15,444	15,199	12,435	7,966	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	2,931	4,197	5,787	6,240	1,907	1,398	1,135
Ireland	7,598	7,664	10,825	13,524	16,933	34,114	39,872	33,808	23,049	8,076	4,746	2,463
Italy	36,377	37,201	43,138	52,397	58,944	66,764	77,305	76,698	71,049	60,698	65,409	55,331
Latvia	n/a	n/a	n/a	n/a	n/a	1,734	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	56	103	211	348	594	866	1,172	1,854	1,810	1,050	706	876
Luxembourg	1,676	1,906	2,308	2,745	3,386	3,957	4,376	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	226	266	245	205	244	210	226,9
Netherlands	69,593	72,609	81,385	95,996	87,164	114,134	119,872	108,725	91,881	61,824	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	n/a	n/a
Portugal	n/a	n/a	n/a	12,944	18,260	17,578	18,391	19,630	13,375	9,330	10,105	4,853
Romania	n/a	n/a	n/a	n/a	n/a	2,119	3,648	7,864	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	923	1,354	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	672	1,456	1,213	928
Spain	47,420	55,265	70,527	91,387	109,028	139,315	156,408	135,576	83,780	68,918	60,986	32,198
Sweden	19,477	22,292	23,735	29,558	33,299	43,885	41,290	43,895	33,776	39,909	45,077	38,887
UK	196,384	258,263	350,376	401,945	425,591	421,253	504,654	530,084	319,011	160,814	157,771	162,230
EU27	594,718	684,498	821,404	1,000,383	1,064,071	1,232,011	1,350,680	1,340,608	985,113	718,139	737,358	665,490
Iceland	n/a	n/a	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	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	1,897	7,602	16,314	18,006	3,455	9,439	17,536
Turkey	1,171	44	179	475	1,526	7,732	8,626	8,696	8,057	9,811	15,939	12,728
Ukraine	n/a	92	188	493	585	1,837	n/a	n/a	n/a	n/a	n/a	n/a
USA	1,139,130	2,461,111	3,036,842	3,491,150	2,354,839	2,516,129	2,365,079	1,773,723	1,020,408	1,323,741	1,229,539	969,828

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

Notes:

- *n/a: figures not available*
- *Finland: new source*
- *Portuguese series has been revised*
- *Russian series has been revised*
- *Turkish series has been revised*
- *USA: series has been revised*

15. Net Residential Loans, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	6,366	3,748	8,332	5,737	6,854	4,333	6,164	1,394	6,545	3,863
Belgium	2,478	443	4,720	6,253	6,302	10,036	10,748	11,942	11,780	7,496	11,524	11,662
Bulgaria	11	24	41	85	306	496	741	n/a	1,092	332	161	50
Cyprus	n/a	97	190	292	325	2,653	1,310	1,539	1,595	1,908	1,541	625
Czech Republic	n/a	n/a	n/a	949	1,278	2,107	1,752	4,450	2,294	1,321	805	1,603
Denmark	5,480	7,523	8,542	9,853	8,712	17,781	17,831	15,784	11,172	8,796	5,854	3,906
Estonia	71	101	206	361	546	1,118	1,660	1,348	584	-112	-145	-102
Finland	2,326	2,788	3,503	5,448	5,496	6,947	6,818	6,865	5,460	4,228	4,887	5,034
France	20,200	19,300	26,100	34,700	45,200	65,500	74,200	74,100	48,900	36,800	59,000	46,600
Germany	40,172	27,004	19,311	20,600	7,858	5,738	3,421	-9,754	-7,561	567	5,016	12,736
Greece	202	465	811	723	1,005	1,943	1,638	1353	453	508	-48	-2,294
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	3,144	4,449	3,641	58	-231	n/a
Ireland	6,360	5,797	8,869	12,409	17,994	21,801	24,572	16,574	8,241	-856	-12,141	n/a
Italy	16,915	9,776	21,059	21,808	32,608	32,747	31,429	22,456	112	19,833	60,847	10,402
Latvia	80	88	196	350	575	1,186	2,171	2,071	494	-327	-310	-478
Lithuania	-18	43	146	331	591	872	1,128	1,854	1,810	1,051	707	n/a
Luxembourg	1,036	663	490	1,183	967	1,209	1,339	2,502	2,093	1,137	1,514	1,664
Malta	40	424	144	184	208	271	248	n/a	n/a	n/a	n/a	n/a
Netherlands	50,867	41,793	46,153	26,955	33,230	46,808	30,965	33,541	43,855	25,325	12,703	12,978
Poland	1,075	1,434	1,573	2,501	1,192	3,911	7,402	11,620	23,156	5,369	8,078	12,629
Portugal	n/a	n/a	n/a	n/a	4,676	8,351	12,444	9,198	4,115	5,476	3,830	-589
Romania	n/a	n/a	n/a	n/a	n/a	1,195	790	1,852	1,760	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	375	729	801	1,018	1,893	n/a	923	281	1,433
Slovenia	5	32	107	95	563	570	588	n/a	727	16	865	327
Spain	33,608	43,048	41,008	50,995	71,715	90,940	96,232	74,873	27,757	4,438	1,337	-13,165
Sweden	3,742	7,488	6,975	9,097	11,760	19,474	21,355	21,832	19,176	19,099	18,449	14,292
UK	66,813	86,923	125,122	146,497	147,158	133,209	161,396	158,223	51,645	13,115	8,868	10,667
Iceland	672	805	451	684	1,175	2,142	421	n/a	n/a	n/a	n/a	n/a
Norway	7,448	8,723	10,597	12,334	12,036	18,855	20,491	18,243	17,067	13,335	15,788	17,079
Russia	n/a	n/a	n/a	n/a	n/a	1,185	5,223	11,061	12,606	-1,347	2,943	8,551
Turkey	n/a	n/a	n/a	144	1,017	6,292	5,156	5,213	2,452	31	9,811	1,459
Ukraine	n/a	n/a	71	267	141	1,166	2,617	4,332	6,838	4,994	4,569	3,646
USA	453,100	467,577	88,743	-331,391	281,378	1,618,354	195,919	-408,039	778,847	-1,105,405	436,752	-124,458

Source: European Mortgage Federation National Experts, National Central Banks

Notes:

- *n/a : figure not available*
- *Belgian series has been revised*
- *Finnish series has been revised*
- *Greek series has been revised*
- *Hungarian series has been revised*
- *Italian series has been revised*
- *Norwegian series has been revised*
- *Portuguese series has been revised*
- *Russian series has been revised*
- *Swedish series has been revised: please note that data after 2005 is not comparable with the earlier data due to a change in the statistical source*
- *Turkish series has been revised*
- *US series has been revised*

16. Total Outstanding Non Residential Loans, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	36,712	35,184	35,371	31,929	31,673	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	n/a	n/a	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	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	n/a	n/a
Czech Republic	n/a	n/a	552	976	1,346	1,651	2,464	3,048	5,072	5,416	5,781	5,861
Denmark	35,879	37,648	40,673	43,656	46,393	50,201	54,142	61,555	71,141	76,855	79,668	81,333
Estonia	2,188	2,601	3,193	4,420	5,915	8,018	11,369	15,307	16,626	15,642	n/a	n/a
Finland	n/a	n/a	n/a	17,300	18,784	20,908	23,058	24,858	26,301	26,981	28,028	n/a
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Germany	217,645	223,644	232,701	257,432	258,045	258,569	256,332	260,008	254,862	255,721	251,450	259,134
Greece	1,811	2,172	2,903	3,247	4,040	4,190	4,194	4,774	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	2,095	2,633	2,961	3,491	4,760	7,494	7,824	8,447	n/a
Ireland	4,925	6,384	8,046	6,998	9,486	11,332	15,437	17,828	16,193	15,147	n/a	n/a
Italy	37,328	40,452	42,983	43,292	50,782	53,888	63,752	69,150	66,240	71,311	74,015	72,700
Latvia	n/a	203	385	519	825	1,048	1,539	2,560	2,634	2,513	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	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	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	n/a	n/a
Netherlands	13,728	13,805	18,509	20,157	23,204	24,317	25,065	23,440	23,772	n/a	n/a	n/a
Poland	n/a	n/a	718	1,141	1,732	2,316	3,673	5,540	8,755	8,492	13,422	13,820
Portugal	n/a	n/a	n/a	n/a	15,720	n/a	n/a	n/a	n/a	84,397	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	4,454	8,876	17,212	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	39,401	21,933	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,855	2,833	2,717
Spain	73,864	91,200	115,092	154,952	197,801	263,763	339,620	400,765	414,512	420,669	396,719	339,739
Sweden	118,828	115,918	124,159	133,794	163,905	174,974	203,085	221,434	219,111	236,167	283,845	302,457
UK	n/a	n/a	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	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	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7,846	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	224	618	1,081	1,651	1,687	1,439	2,111	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USA	1,335,483	1,416,899	1,370,422	1,258,873	1,285,582	1,612,168	1,696,516	1,689,838	1,947,193	1,676,771	1,703,600	1,655,837

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

Notes:

- *n/a : figure not available*
- *Danish series has been revised*
- *Finnish series has been revised*
- *Hungarian series has been revised*
- *Italian series has been revised*
- *Swedish series has been revised;*
- *US series has been revised*

17. Gross Non Residential Loans, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	n/a	n/a	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	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	n/a	n/a
Czech Republic	n/a	n/a	249	293	546	709	899	1,312	2,213	706	575	986
Denmark	5,841	11,391	10,797	16,329	12,305	22,827	12,910	18,025	17,382	14,249	12,206	10,469
Estonia	194	256	363	412	702	1,564	2,893	9,581	8,316	4,080	n/a	n/a
Finland	n/a	n/a	n/a	7,491	7,447	8,547	8,932	8,985	8,928	7,241	7,624	n/a
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Germany	23,500	22,100	22,100	24,900	25,000	26,900	38,200	56,700	41,700	33,100	28,200	33,100
Greece	n/a	n/a	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	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	n/a	n/a
Italy	12,239	12,070	15,259	15,315	16,453	16,782	22,278	21,179	20,823	19,233	16,131	11,864
Latvia	n/a	n/a	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	n/a	n/a
Luxembourg	638	828	823	1,108	779	784	906	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	n/a	n/a
Netherlands	36,988	49,226	42,972	64,138	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	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	1,520	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	15,312	23,603	39,509	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	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	352	375
Spain	27,857	34,472	45,047	63,411	86,266	110,756	127,682	121,072	99,335	88,703	63,278	49,876
Sweden	19,477	22,292	23,735	29,558	33,299	43,885	41,290	43,895	33,776	39,909	45,077	38,887
UK	n/a	n/a	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	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	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	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	n/a	n/a
Ukraine	n/a	9	19	49	58	184	n/a	n/a	n/a	n/a	n/a	n/a
USA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Fedearation National Experts, National Central Banks

Notes:

- *n/a: figures not available*
- *Swedish series has been revised*

18. Representative interest rates on new mortgage loans, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	7.13	6.00	5.38	4.41	3.90	3.58	3.80	4.79	5.32	3.71	2.71	2.86
Belgium	7.25	6.90	6.55	6.00	5.15	4.95	5.40	4.93	4.99	4.43	3.82	3.69
Bulgaria	15.86	15.14	13.14	12.62	10.58	6.88	8.50	10.40	10.23	9.72	8.34	8.10
Cyprus	8.00	7.00	6.78	6.30	7.30	6.22	5.74	5.61	6.47	5.01	5.16	5.73
Czech Republic	n/a	n/a	n/a	5.00	4.74	3.98	4.36	5.34	5.69	5.61	4.23	3.56
Denmark	7.24	6.40	5.66	5.45	4.97	4.44	5.22	5.94	6.58	5.19	4.68	4.14
Estonia	10.38	7.72	6.80	5.24	3.54	3.53	4.89	5.85	5.26	3.32	3.43	3.46
Finland	6.50	5.30	4.10	3.29	3.09	3.27	4.21	4.94	4.16	2.00	2.17	2.58
France	6.40	5.40	5.10	4.40	4.25	3.50	3.90	4.60	5.20	4.60	4.00	3.90
Germany	6.44	5.87	5.52	5.14	4.63	4.19	4.64	5.03	4.83	4.29	3.70	3.54
Greece	n/a	n/a	4.42	4.31	4.21	3.86	4.36	4.76	4.92	3.08	3.65	4.18
Hungary	n/a	n/a	n/a	n/a	n/a	5.93	5.82	6.42	7.23	9.23	9.44	12.54
Ireland	6.17	4.72	4.69	3.50	3.47	3.68	4.57	5.07	4.33	2.61	3.01	3.27
Italy	6.50	5.30	5.03	3.80	3.66	3.73	4.87	5.73	5.09	2.88	2.97	4.03
Latvia	11.40	11.10	8.60	8.30	5.73	4.55	5.55	6.57	6.66	4.50	4.15	3.80
Lithuania	9.93	8.77	6.05	4.97	4.52	3.30	4.03	5.30	5.45	4.01	3.71	3.63
Luxembourg	5.98	4.76	4.40	3.41	3.38	3.62	4.51	4.83	4.22	2.03	1.88	2.26
Malta	n/a	n/a	n/a	4.50	4.34	4.52	4.95	5.39	3.30	3.52	3.46	3.90
Netherlands	5.88	5.88	5.33	4.93	4.42	3.90	4.61	5.11	5.49	5.26	4.57	4.07
Poland	n/a	n/a	9.97	8.20	8.08	6.98	5.74	6.09	8.05	7.32	6.58	7.00
Portugal	7.40	5.40	5.10	3.43	3.39	3.50	4.40	5.18	4.96	2.22	2.96	4.25
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.50	7.03	5.06	5.23	5.61
Slovakia	9.98	9.10	8.62	7.21	6.87	4.65	6.30	6.23	6.20	5.50	5.04	5.27
Slovenia	15.40	14.80	13.50	10.16	7.58	6.13	5.64	6.27	6.89	3.36	3.21	4.03
Spain	5.90	4.50	3.80	3.31	3.22	3.20	4.49	5.37	5.89	2.52	2.52	3.47
Sweden	4.87	4.71	4.87	3.73	2.98	2.37	3.64	4.77	3.64	1.44	2.78	4.19
UK	5.19	5.48	4.58	4.18	5.04	5.24	5.12	5.75	5.83	4.28	3.76	3.56
Iceland	5.10	5.10	5.10	5.10	4.15	4.70	4.95	5.75	5.40	5.05	5.00	n/a
Norway	8.64	8.15	8.38	3.80	3.53	3.94	5.08	7.21	5.74	3.82	4.08	4.40
Russia	24.40	n/a	n/a	n/a	n/a	14.90	13.70	12.60	12.90	14.30	13.10	11.90
Turkey	n/a	n/a	43.37	29.54	25.19	15.11	21.53	16.21	20.66	12.06	9.53	14.35
Ukraine	n/a	n/a	n/a	n/a	20.00	16.00	17.80	14.80	22.80	25.95	19.25	18.25
USA	8.06	6.97	6.54	5.82	5.84	5.86	6.41	6.34	6.04	5.04	4.69	4.46

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

Notes:

- *n/a : figure not available*
- *For national definitions of representative interest rates on new mortgage loans please see the methodological Annex ("Explanatory Note on data")*
- *Estonian series has been revised*
- *Turkey: new source*
- *Ukrainian series has been revised*
- *US: Representative interest rate on 30-year new mortgage loans (conventional 30 year)*

19. Loan-to-Value ratios for mortgage loans, national averages, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	n/a	n/a	80.0	80.0	n/a	80.0	80.0	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	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	n/a	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	53.0	43.0	45.0	43.0	56.0	56.0	56.4
Denmark	n/a	n/a	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	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	70.0	72.0	71.0	72.0	76.0	74.0	n/a
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Germany	n/a	n/a	71.0	n/a	n/a	n/a	72.0	n/a	n/a	74.0	n/a	n/a
Greece	n/a	n/a	n/a	56.0	58.0	n/a	n/a	79.0	n/a	n/a	60.0	n/a
Hungary	n/a	n/a	n/a	n/a	47.0	54.0	58.0	61.0	73.0	65.0	50.0	50.0
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Italy	n/a	n/a	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	n/a	n/a
Lithuania	n/a	n/a	n/a	n/a	75.0	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	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	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	83.0	n/a	n/a	n/a	80.0	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	50-80	50-80	80.0
Portugal	n/a	n/a	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	68.4	69.5	70.0	n/a
Slovakia	n/a	n/a	n/a	60.0	80.0	80.0	85.0	80.0	85.0	70.0	85.0	70.0
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	60.5	52.0	55.5	n/a	48.0
Spain	n/a	n/a	n/a	n/a	64.1	64.2	63.8	62.8	59.8	56.2	57.9	58.4
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	84.3	81.9	80.0	75.0	72.4	77.9	80.0	80.0	76.0	74.0	73.0	75.0
Iceland	65.0	65.0	65.0	90.0	90.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Norway	n/a	n/a	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	75.0	70.0
Turkey	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	n/a
Ukraine	n/a	n/a	n/a	n/a	70.0	80.0	85.0	80.0	75.0	50.0	60.0	65.0
USA	77.8	76.2	75.1	73.5	74.9	74.7	76.6	79.4	76.9	74.5	74.0	n/a

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, Federal Housing Finance Board

Notes:

- *n/a : figure not available*
- *Czech series has been revised*
- *Germany: Average for clients of mortgage banks and commercial banks*
- *Iceland: first-Time buyers only*
- *Slovakia: first-Time buyers only*
- *Spain: new lending only*
- *USA: average LTV For conventional Single- Family Homes (annual National Average); series has been revised*

20. Total Covered Bonds Outstanding (backed by mortgages), EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	4,000	4,000	4,000	3,880	4,125	4,973	5,317	7,645	12,547
Belgium	n/a	n/a	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	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	n/a	n/a
Czech Republic	n/a	n/a	n/a	1,638	1,956	4,452	5,543	8,245	8,098	8,314	8,513	8,546
Denmark	155,426	161,312	212,794	204,695	216,133	246,411	260,367	244,696	255,140	319,434	332,505	345,529
Estonia	n/a	n/a	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	250	1,500	3,000	4,500	5,750	7,625	10,125	18,758
France	n/a	n/a	n/a	38,344	47,491	57,153	73,977	103,604	159,407	176,043	200,585	243,279
Germany	247,484	255,873	261,165	256,027	246,636	237,547	223,306	206,489	217,367	225,100	219,947	223,676
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,000	6,500	19,750	19,750
Hungary	n/a	n/a	n/a	3,568	4,962	5,072	5,924	5,987	7,105	7,375	6,323	5,175
Ireland	n/a	n/a	n/a	n/a	2,000	4,140	11,900	13,575	23,075	29,725	29,037	30,007
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,500	14,000	26,925	50,768
Latvia	n/a	n/a	n/a	35	54	60	63	90	90	85	63	37
Lithuania	n/a	n/a	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	150	150	150	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	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	2,000	7,500	15,727	20,977	28,367	40,764	54,243
Poland	n/a	n/a	n/a	160	220	558	453	676	561	583	511	527
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	2,000	7,850	14,870	22,120	28,770	32,283
Romania	n/a	n/a	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	510	1,052	1,583	2,214	2,738	3,576	3,608	3,442	3,768
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	7,334	15,177	33,100	57,111	94,707	150,213	214,768	266,959	315,055	336,750	343,401	369,208
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	55,267	92,254	117,628	133,903	188,750	208,894
UK	n/a	n/a	n/a	5,000	14,959	26,778	50,548	81,964	204,278	201,096	205,370	194,783
EU 27	410,244	432,362	507,059	571,087	634,421	741,466	920,859	1,059,630	1,369,601	1,525,945	1,672,425	1,821,777
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	467	794	300	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,371	21,924	53,582	70,178	91,852
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	57	57	398	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	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	11	4	n/a	n/a
USA	n/a	n/a	n/a	n/a	n/a	n/a	4,000	12,859	12,937	12,888	11,497	9,546

Source: European Covered Bond Council

Notes:

- *n/a : figure not available*
- *Austrian and Icelandic figures are estimates*
- *Czech series has been revised*
- *French series has been revised*
- *Hungarian series has been revised*
- *Norvegian series has been updated*
- *Portuguese series has been revised*
- *Spanish series has been revised*
- *Covered bonds include only bonds secured on property by mortgage lending insittutions*
- *Even though mortgage bonds legislation exists in Greece and Portugal, no mortgage bonds have been issued there. There is no mortgage bond legislation in Belgium. Italy just adopted legislation. It is expected to issue covered bonds in 2006.*
- *Bonds were not issued in the UK and Ireland before 2003. In other countries were data is missing, bonds may have been issued but the quality of the data is uncertain.*
- *In Sweden, the first covered bonds were issued in 2006, even though the Swedish covered bonds act applies from 2004. Prior to 2006 only mortgage bonds were issued in Sweden (outstanding volume at the end of 2005: 92,8 bn Euro) and as they are not directly comparable to covered bonds they are not included in the figures. A large part of the mortgage bond stock have also been converted into covered bonds in 2006. The figures include both the converted bonds and the new bonds issued during the year*

21. Total Covered Bonds Issuance, backed by mortgages, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	1,029	n/a	214	2,176	1,959	1,321	1,442	3,600	3,664
Belgium	n/a	n/a	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	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	n/a	5,200
Czech Republic	n/a	n/a	n/a	666	744	2,558	956	3,514	939	750	635	770
Denmark	36,067	61,262	66,352	99,727	95,009	149,708	114,014	70,955	103,230	125,484	148,475	145,147
Estonia	n/a	n/a	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	250	1,250	1,500	1,500	1,250	2,125	5,250	9,883
France	n/a	n/a	n/a	10,981	11,312	12,972	21,269	33,511	64,009	37,285	51,525	88,776
Germany	49,553	44,013	51,784	57,621	40,773	33,722	35,336	26,834	57,345	56,852	42,216	40,911
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,000	1,500	17,250	5,000
Hungary	n/a	n/a	n/a	2,961	2,381	808	1,418	331	3,331	3,209	542	2,264
Ireland	n/a	n/a	n/a	0	2,000	2,000	7,753	1,675	9,506	14,801	6,000	9,290
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,500	7,500	12,925	29,261
Latvia	n/a	n/a	n/a	11	22	4	20	19	25	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	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	150	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	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	2,000	5,500	8,227	5,608	7,725	13,731	14,143
Poland	n/a	n/a	n/a	123	63	224	52	206	197	88	138	269
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	2,000	5,850	7,020	7,250	11,800	7,255
Romania	n/a	n/a	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	355	549	584	676	803	1,414	707	1,179	867
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	2,293	8,138	15,120	28,502	37,835	57,780	69,890	51,801	54,187	43,580	51,916	72,077
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	17,569	36,638	43,488	53,106	79,910	69,800
UK	n/a	n/a	n/a	5,000	9,959	11,819	23,770	31,874	121,030	30,431	28,636	38,689
EU 27	87,913	113,413	133,256	206,977	200,898	275,644	304,048	275,696	485,399	393,835	475,729	538,066
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	467	321	n/a	n/a	n/a	n/a
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,458	15,660	30,105	21,410	28,135
Russia	n/a	n/a	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	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7	n/a	n/a	n/a
USA	n/a	n/a	n/a	n/a	n/a	n/a	4,000	8,859	n/a	n/a	n/a	n/a

Source: European Covered Bond Council

Notes:

- *n/a : figure not available*
- *Austrian and Icelandic figures are estimates*
- *Czech series has been revised*
- *French series has been revised*
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- *Portuguese series has been revised*
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- *Spanish series has been revised*
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- *Even though mortgage bonds legislation exists in Greece and Portugal, no mortgage bonds have been issued there. There is no mortgage bond legislation in Blegium. Italy just adopted legislation. It is expected to issue covered bonds in 2006.*
- *Bonds were not issued in the UK and Ireland before 2003. In other countries were data is missing, bonds may have been issued but the quality of the data is uncertain.*
- *In Sweden, the first covered bonds were issued in 2006, even though the Swedish covered bonds act applies from 2004. Prior to 2006 only mortgage bonds were issued in Sweden (outstanding volume at the end of 2005: 92,8 bn Euro) and as they are not directly comparable to covered bonds they are not included in the figures. A large part of the mortgage bond stock have also been converted into covered bonds in 2006. The figures include both the converted bonds and the new bonds issued during the year*

22. Total Residential Mortgage-Backed Securities (RMBS) outstanding, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,200	2,200	2,100	2,000
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	41,000	48,500	61,500	70,800
Bulgaria	n/a	n/a	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	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	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	300	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	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,700	4,400	3,700
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12,900	11,200	11,200	17,600
Germany	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	20,300	17,300	22,600	19,800
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,700	9,300	6,800	6,300
Hungary	n/a	n/a	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	43,900	53,900	68,900	59,500
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	94,700	131,900	142,700	119,200
Latvia	n/a	n/a	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	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	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	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	181,400	197,400	289,000	286,600
Poland	n/a	n/a	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	28,700	35,800	41,900	37,500
Romania	n/a	n/a	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	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	n/a	n/a
Spain	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	162,500	167,600	190,000	170,800
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	600	300	n/a	n/a
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	455,800	458,000	453,900	404,000
Iceland	n/a	n/a	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	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,300	3,300	2,900	2,700
Turkey	n/a	n/a	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	n/a	n/a
USA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Securitisation Forum / Association for Financial Markets in Europe, Federal Reserve

Notes:

- *n/a: figures not available*

23. Total RMBS Issues, EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	39	60	n/a	2,270	1,050	n/a	n/a	n/a	n/a	19,154	11,392	19,019
Bulgaria	n/a	n/a	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	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	n/a	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	100	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	n/a	n/a
Finland	n/a	n/a	n/a	n/a	500	n/a	n/a	n/a	n/a	n/a	n/a	n/a
France	n/a	n/a	4,590	6,080	4,690	4,000	300	n/a	6,900	n/a	5,000	13,851
Germany	n/a	n/a	3,030	2,860	1,130	1,100	6,200	n/a	n/a	1,125	363	n/a
Greece	n/a	n/a	n/a	250	741	1,500	3,600	2,805	n/a	1,410	n/a	1,750
Hungary	n/a	n/a	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	1,820	2,000	2,000	7,900	1,675	9,500	13,757	4,157	n/a
Italy	1,510	8,085	6,578	8,871	7,417	9,850	16,946	22,267	75,735	53,166	9,965	8,743
Latvia	n/a	n/a	n/a	n/a	51	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	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	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	n/a	n/a
Netherlands	7,430	9,171	17,611	17,900	16,060	25,000	26,500	35,300	49,400	40,894	124,990	83,410
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	1,000	1,900	8,000	4,920	7,000	4,400	n/a	n/a	8,697	9,352	1,340
Romania	n/a	n/a	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	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	n/a	n/a
Spain	3,124	6,858	7,915	15,867	19,584	32,403	39,254	55,413	72,413	26,621	16,045	14,094
Sweden	n/a	280	1,470	1,000	1,513	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	22,650	25,470	35,270	55,460	79,773	103,311	202,823	n/a	n/a	70,534	87,959	77,903
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	8,179	5,772	16,810	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	100	n/a	n/a	727	2,900	n/a
Turkey	n/a	n/a	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	n/a	n/a
USA	668,520	1,505,511	1,954,153	2,403,837	1,516,801	1,738,856	1,622,832	1,360,981	834,598	1,284,336	1,101,503	n/a

Source: Source: Association for Financial Markets in Europe (AFME), Federal Reserve

Notes:

- *n/a: figures not available*

24. GDP at current market prices, million EUR

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	207,529	212,499	218,848	224,996	234,708	245,243	259,035	274,020	282,746	274,818	286,197	301,309
Belgium	252,216	259,433	268,256	275,716	290,825	302,845	318,150	335,085	345,006	339,162	354,378	368,976
Bulgaria	13,704	15,552	17,027	18,374	20,388	23,256	26,477	30,772	35,431	34,933	36,052	38,483
Cyprus	10,079	10,801	11,170	11,785	12,728	13,659	14,673	15,951	17,287	16,946	17,334	17,761
Czech Republic	61,495	69,045	80,004	80,924	88,262	100,190	113,696	127,331	147,879	137,162	149,313	154,913
Denmark	173,598	179,226	184,744	188,500	197,070	207,367	218,747	227,534	233,482	222,410	235,609	239,776
Estonia	6,160	6,971	7,776	8,719	9,685	11,182	13,391	16,069	16,304	13,840	14,305	15,973
Finland	132,110	139,198	143,541	145,531	152,266	157,429	165,765	179,830	185,651	173,267	179,721	191,571
France	1,441,373	1,495,553	1,542,928	1,587,902	1,655,571	1,718,047	1,798,115	1,886,792	1,933,195	1,889,231	1,932,802	1,987,699
Germany	2,062,500	2,113,160	2,143,180	2,147,500	2,195,700	2,224,400	2,313,900	2,428,500	2,473,800	2,374,500	2,476,800	2,570,800
Greece	137,930	146,428	156,615	172,431	185,266	194,819	211,300	227,074	236,917	235,017	227,318	215,088
Hungary	51,320	59,656	70,922	74,278	82,740	88,574	89,798	100,742	106,373	92,942	97,095	100,778
Ireland	104,830	117,136	130,464	140,981	150,561	163,462	178,297	189,933	179,990	160,596	155,992	156,438
Italy	1,191,057	1,248,648	1,295,226	1,335,354	1,391,530	1,429,479	1,485,377	1,546,177	1,567,761	1,519,702	1,553,166	1,580,220
Latvia	8,496	9,320	9,911	9,943	11,155	12,928	15,982	21,027	22,890	18,521	17,975	20,050
Lithuania	12,377	13,577	15,052	16,497	18,158	20,870	23,979	28,577	32,288	26,508	27,535	30,702
Luxembourg	22,001	22,572	23,992	25,834	27,456	30,283	33,920	37,491	39,644	38,073	40,267	42,822
Malta	4,221	4,301	4,489	4,533	4,545	4,811	5,074	5,455	5,840	5,830	6,123	6,393
Netherlands	417,960	447,731	465,214	476,945	491,184	513,407	540,216	571,773	594,481	571,145	588,414	602,105
Poland	185,714	212,294	209,617	191,644	204,237	244,420	272,089	311,002	363,154	310,418	354,568	370,009
Portugal	122,270	134,137	140,142	143,015	148,827	153,728	160,274	169,319	171,983	168,587	172,670	171,016
Romania	40,651	45,357	48,615	52,577	61,064	79,802	97,751	124,729	139,765	117,457	124,059	136,480
Slovakia	22,029	23,573	25,972	29,489	33,995	38,489	44,566	54,905	64,572	63,051	65,744	69,058
Slovenia	21,435	22,707	24,527	25,819	27,228	28,731	31,051	34,562	37,280	35,311	35,416	35,639
Spain	630,263	680,678	729,206	782,929	841,042	908,792	984,284	1,053,537	1,088,124	1,053,914	1,051,342	1,073,383
Sweden	266,422	253,743	266,740	278,914	291,634	298,353	318,171	337,944	333,256	291,347	349,216	387,059
UK	1,602,240	1,643,154	1,710,421	1,647,056	1,772,546	1,833,954	1,948,518	2,052,847	1,815,417	1,565,750	1,706,302	1,737,089
EU 27	9,201,979	9,588,080	9,950,225	10,096,416	10,609,824	11,060,219	11,695,007	12,397,501	12,466,843	11,745,354	12,255,454	12,629,458
Iceland	9,421	8,830	9,474	9,711	10,674	13,112	13,316	14,932	10,292	8,674	9,491	10,075
Norway	182,579	190,956	204,074	199,146	209,424	244,582	271,001	287,712	311,285	270,011	315,234	349,077
Russia	281,184	342,321	407,984	507,652	651,111	727,534	776,385	974,666	1,133,334	879,266	1,121,777	1,329,819
Turkey	289,933	217,905	243,440	268,330	314,584	386,936	419,232	471,972	498,602	440,367	550,363	555,249
Ukraine	33,848	42,440	44,832	44,318	52,162	69,086	85,871	104,184	122,996	84,041	103,922	124,047
USA	10,774,686	11,485,261	11,254,547	9,849,894	9,529,142	10,146,291	10,654,030	10,236,191	9,716,821	10,018,426	10,936,788	10,830,244

Source: Sources : Eurostat, IMF, Bureau of Economic Analysis

Notes:

- *n/a: figures not available*
- *Please note that historical data has been revised*

25. GDP per capita in Purchasing Parity Standards (PPS), EU27=100

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	132	126	127	128	128	125	126	124	124	125	126	129
Belgium	126	124	125	123	121	120	118	116	116	118	119	118
Bulgaria	28	30	32	34	35	37	38	40	44	44	44	45
Cyprus	88	90	88	88	90	92	92	93	98	98	95	92
Czech Republic	71	73	73	77	78	79	80	83	81	82	80	80
Denmark	132	128	128	124	126	124	124	123	125	123	127	125
Estonia	45	46	50	55	57	62	66	70	69	64	64	67
Finland	117	115	115	113	116	114	114	118	119	115	115	116
France	115	115	115	111	110	110	108	108	107	108	108	107
Germany	118	116	114	116	115	116	115	116	116	116	118	120
Greece	84	86	90	93	94	91	92	90	92	94	90	82
Hungary	54	58	61	63	63	63	63	62	64	65	65	66
Ireland	132	133	139	142	143	145	146	148	133	128	127	127
Italy	118	118	112	111	107	105	105	104	104	104	100	101
Latvia	36	38	41	43	46	48	51	56	56	51	55	58
Lithuania	40	42	44	49	51	53	56	59	61	55	57	62
Luxembourg	245	234	240	248	253	255	270	275	279	266	271	274
Malta	85	79	81	80	78	78	76	76	79	82	82	83
Netherlands	134	134	133	129	129	131	131	132	134	132	133	131
Poland	48	47	48	49	51	51	52	54	56	61	63	65
Portugal	81	80	80	79	77	80	79	79	78	80	80	77
Romania	26	28	29	31	34	35	38	42	47	47	47	49
Slovakia	50	52	54	55	57	60	63	68	73	73	73	73
Slovenia	80	80	82	84	87	87	88	88	91	87	85	84
Spain	97	98	100	101	101	102	105	105	104	103	100	99
Sweden	128	122	122	124	126	122	123	125	124	120	124	126
UK	119	120	120	122	124	122	120	116	112	111	112	108
euro area	112	112	111	110	109	109	109	109	109	109	108	108
EU 27	100	100	100	100	100	100	100	100	100	100	100	100
Iceland	132	132	130	125	131	130	123	121	124	118	111	110
Norway	165	161	155	156	165	177	185	182	192	176	181	189
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	42	37	36	36	40	42	44	45	47	46	49	52
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USA	161	156	154	156	157	159	154	151	147	146	147	148

Source: Eurostat

Notes:

- *n/a: figures not available*
- *Please note that historical data has been revised*

26. Real GDP growth rate, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	3.7	0.9	1.7	0.9	2.6	2.4	3.7	3.7	1.4	-3.8	2.3	3.1
Belgium	3.7	0.8	1.4	0.8	3.3	1.8	2.7	2.9	1.0	-2.8	2.2	1.9
Bulgaria	5.7	4.2	4.7	5.5	6.7	6.4	6.5	6.4	6.2	-5.5	0.4	1.7
Cyprus	5.0	4.0	2.1	1.9	4.2	3.9	4.1	5.1	3.6	-1.7	1.1	0.5
Czech Republic	4.2	3.1	2.1	3.8	4.7	6.8	7.0	5.7	3.1	-4.7	2.7	1.7
Denmark	3.5	0.7	0.5	0.4	2.3	2.4	3.4	1.6	-0.8	-5.8	1.3	1.0
Estonia	9.7	6.3	6.6	7.8	6.3	8.9	10.1	7.5	-3.7	-14.3	2.3	7.6
Finland	5.3	2.3	1.8	2.0	4.1	2.9	4.4	5.3	0.3	-8.4	3.7	2.7
France	3.7	1.8	0.9	0.9	2.5	1.8	2.5	2.3	-0.1	-3.1	1.4	1.7
Germany	3.1	1.5	0.0	-0.4	1.2	0.7	3.7	3.3	1.1	-5.1	3.7	3.0
Greece	3.5	4.2	3.4	5.9	4.4	2.3	5.5	3.0	-0.2	-3.3	-3.5	-6.9
Hungary	4.2	3.7	4.5	3.9	4.8	4.0	3.9	0.1	0.9	-6.8	1.3	1.7
Ireland	9.3	4.8	5.9	4.2	4.5	5.3	5.3	5.2	-3.0	-7.0	-0.4	0.7
Italy	3.7	1.9	0.5	0.0	1.7	0.9	2.2	1.7	-1.2	-5.5	1.8	0.4
Latvia	6.1	7.3	7.2	7.6	8.9	10.1	11.2	9.6	-3.3	-17.7	-0.3	5.5
Lithuania	12.3	6.7	6.8	10.3	7.4	7.8	7.8	9.8	2.9	-14.8	1.3	5.8
Luxembourg	8.4	2.5	4.1	1.5	4.4	5.4	5.0	6.6	0.8	-5.3	2.7	1.6
Malta	6.4	-1.5	2.8	0.1	-0.5	3.7	2.9	4.3	4.1	-2.7	2.3	2.1
Netherlands	3.9	1.9	0.1	0.3	2.2	2.0	3.4	3.9	1.8	-3.5	1.6	1.1
Poland	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.8	4.3
Portugal	3.9	2.0	0.8	-0.9	1.6	0.8	1.4	2.4	0.0	-2.9	1.4	-1.4
Romania	2.4	5.7	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-6.6	-1.6	2.5
Slovakia	1.4	3.5	4.6	4.8	5.1	6.7	8.3	10.5	5.8	-4.9	4.2	3.3
Slovenia	4.3	2.9	3.8	2.9	4.4	4.0	5.8	6.9	3.6	-8.0	1.4	0.6
Spain	5.0	3.7	2.7	3.1	3.3	3.6	4.1	3.5	0.9	-3.7	-0.1	0.4
Sweden	4.5	1.3	2.5	2.3	4.2	3.2	4.3	3.3	-0.6	-5.0	6.2	3.9
UK	4.5	3.2	2.7	3.5	3.0	2.1	2.6	3.5	-1.1	-4.4	2.1	0.7
euro area	3.9	2.2	1.3	1.4	2.5	2.0	3.3	3.2	0.3	-4.3	2.0	1.5
EU 27	3.8	2.0	0.9	0.7	2.2	1.7	3.2	2.9	0.3	-4.3	1.9	1.5
Iceland	4.3	3.9	0.1	2.4	7.8	7.2	4.7	6.0	1.3	-6.8	-4.0	3.1
Norway	3.3	2.0	1.5	1.0	4.0	2.6	2.5	2.7	0.0	-1.7	0.7	1.4
Russia	10.0	5.1	4.7	7.3	7.2	6.4	8.2	8.5	5.2	-7.8	4.3	4.3
Turkey	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.0	8.5
Ukraine	5.9	8.9	5.3	9.6	12.1	2.7	7.3	7.9	2.3	-14.8	4.2	5.2
USA	4.1	1.1	1.8	2.5	3.5	3.1	2.7	1.9	-0.3	-3.5	3.0	1.8

Source: Eurostat, IMF, Bureau of Economic Analysis

Notes:

- *n/a: figures not available*
- *Please note that historical data has been revised*

27. Real Gross Fixed Investment in Housing, annual % change

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	-4.5	-6.8	-4.8	-4.1	0.8	1.4	0.4	1.9	0.8	-4.9	-2.3	3.8
Belgium	-1.0	-2.6	-5.2	3.1	8.0	10.7	6.5	3.3	-2.7	-9.2	1.6	-0.9
Bulgaria	10.7	10.3	19.6	4.8	2.2	56.3	97.3	-7.2	21.3	-16.2	-14.8	n/a
Cyprus	0.5	-0.3	8.0	16.7	17.4	9.6	6.2	7.5	2.6	-19.5	-5.4	-21.5
Czech Republic	0.3	-1.7	-12.4	-7.4	-3.4	-2.0	7.3	24.2	5.2	-14.3	21.8	-7.8
Denmark	10.3	-9.3	0.8	11.8	11.9	17.3	9.6	-6.0	-10.9	-16.9	-9.0	n/a
Estonia	9.3	8.4	25.5	33.5	28.1	39.4	43.5	-3.2	-27.4	-29.2	-3.6	15.8
Finland	6.0	-9.9	-0.1	11.7	11.5	5.4	4.2	0.0	-9.7	-13.0	25.1	4.4
France	1.5	0.8	0.8	2.7	3.1	5.3	6.3	4.5	-2.6	-7.7	-1.3	2.9
Germany	-2.5	-5.9	-6.0	-2.0	-3.4	-4.3	6.0	-1.8	-3.5	-2.4	3.5	6.3
Greece	n/a	4.3	15.2	12.1	-1.0	-0.5	31.4	-9.0	-28.2	-23.5	-18.0	-23.6
Hungary	14.8	-27.2	60.2	6.8	12.5	-12.9	-16.6	6.6	-8.0	-11.9	-24.5	n/a
Ireland	8.6	5.1	3.7	13.4	10.8	16.8	3.8	-8.0	-16.0	-38.0	-34.9	-14.1
Italy	4.7	1.7	2.5	3.3	3.1	5.1	4.0	1.0	-1.1	-8.4	-2.0	-2.7
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	9.3	-3.6	-10.3	14.4	66.6	0.0	21.2	14.9	24.3	-7.2	-38.9	1.5
Luxembourg	-1.4	14.6	-14.1	18.3	-1.7	-2.5	18.0	32.0	14.0	1.9	2.2	0.0
Malta	n/a	n/a	n/a	n/a	9.4	9.7	16.7	4.6	-23.6	-29.9	-15.6	-5.9
Netherlands	1.6	3.2	-6.5	-3.7	4.1	5.0	5.8	4.7	-0.2	-14.6	-11.5	6.3
Poland	10.3	-6.9	7.2	-3.1	4.9	8.8	9.4	12.0	6.5	-4.3	-3.1	5.2
Portugal	5.4	-3.0	-4.2	-17.0	-2.6	-0.3	-7.3	-7.5	-11.7	-14.6	-7.1	-14.0
Romania	67.6	62.4	68.9	20.4	-2.2	35.7	-6.3	50.6	40.9	n/a	n/a	n/a
Slovakia	18.9	-21.0	-1.5	-3.7	-2.8	8.6	-13.7	9.3	11.1	21.2	-1.6	-0.2
Slovenia	-7.0	-2.7	-3.1	-4.7	9.4	15.7	10.3	14.1	12.4	-20.5	-20.8	-20.2
Spain	10.3	7.5	7.0	9.3	5.9	6.1	6.2	2.5	-10.7	-24.5	-16.8	n/a
Sweden	14.8	7.4	11.3	4.3	12.4	11.9	15.5	8.0	-13.1	-19.1	17.2	15.1
UK	0.1	3.9	7.8	4.4	9.9	6.0	1.7	4.3	-10.0	-20.4	3.2	5.7
euro area	1.3	-1.1	-1.1	1.8	2.0	3.2	6.1	0.7	-5.3	-11.8	-3.3	0.1
EU 27	1.7	-0.6	0.3	2.2	3.4	4.1	5.8	1.8	-5.5	-13.0	-2.6	1.6
Iceland	12.8	12.3	12.4	3.7	14.2	11.9	16.5	13.2	-21.9	-55.7	-16.7	8.6
Norway	-6.3	-0.6	0.1	1.0	9.5	10.8	5.8	14.0	-1.6	-7.9	-5.2	9.4
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	6.9	-16.9	12.1	5.9	11.0	12.3	17.8	6.0	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	n/a	n/a
USA	1.0	0.6	5.3	8.2	9.8	6.2	-7.3	-18.7	-23.9	-22.2	4.3	-1.3

Sources: Eurostat, OECD, Bureau of Economic Analysis

Notes:

- *n/a: figures not available*
- *Please note that historical data has been revised*

28. Harmonised Index of Consumer Prices (HICP), annual % change

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	2.0	2.3	1.7	1.3	2.0	2.1	1.7	2.2	3.2	0.4	1.7	3.6
Belgium	2.7	2.4	1.6	1.5	1.9	2.5	2.3	1.8	4.5	0.0	2.3	3.5
Bulgaria	10.3	7.4	5.8	2.3	6.1	6.0	7.4	7.6	12.0	2.5	3.0	3.4
Cyprus	4.9	2.0	2.8	4.0	1.9	2.0	2.3	2.2	4.4	0.2	2.6	3.5
Czech Republic	3.9	4.5	1.4	-0.1	2.6	1.6	2.1	3.0	6.3	0.6	1.2	2.1
Denmark	2.7	2.3	2.4	2.0	9.0	1.7	1.9	1.7	3.6	1.1	2.2	2.7
Estonia	3.9	5.6	3.6	1.4	3.0	4.1	4.5	6.7	10.6	0.2	2.7	5.1
Finland	2.7	2.0	1.3	0.1	0.8	0.8	1.3	1.6	3.9	1.6	1.7	3.3
France	1.8	1.8	1.9	2.2	2.3	1.9	1.9	1.6	3.2	0.1	1.7	2.3
Germany	1.4	1.8	1.4	1.0	1.8	1.9	1.8	2.3	2.8	0.2	1.2	2.5
Greece	2.9	3.7	3.9	3.4	3.0	3.5	3.3	3.0	4.2	1.3	4.7	3.1
Hungary	10.0	9.1	5.2	4.7	6.8	3.5	4.0	7.9	6.0	4.0	4.7	3.9
Ireland	5.3	4.0	4.7	4.0	2.3	2.2	2.7	2.9	3.1	-1.7	-1.6	1.2
Italy	2.6	2.3	2.6	2.8	2.3	2.2	2.2	2.0	3.5	0.8	1.6	2.9
Latvia	2.6	2.5	2.0	2.9	6.2	6.9	6.6	10.1	15.3	3.3	-1.2	4.2
Lithuania	1.1	1.6	0.3	-1.1	1.2	2.7	3.8	5.8	11.1	4.2	1.2	4.1
Luxembourg	3.8	2.4	2.1	2.5	3.2	3.8	3.0	2.7	4.1	0.0	2.8	3.7
Malta	3.0	2.5	2.6	1.9	2.7	2.5	2.6	0.7	4.7	1.8	2.0	2.4
Netherlands	2.3	5.1	3.9	2.2	1.4	1.5	1.7	1.6	2.2	1.0	1.3	2.3
Poland	10.1	5.3	1.9	0.7	3.6	2.2	1.3	2.6	4.2	4.0	2.7	3.9
Portugal	2.8	4.4	3.7	3.3	2.5	2.1	3.0	2.4	2.7	-0.9	1.4	3.6
Romania	45.7	34.5	22.5	15.3	11.9	9.1	6.6	4.9	7.9	5.6	6.1	5.8
Slovakia	12.2	7.2	3.5	8.4	7.5	2.8	4.3	1.9	3.9	0.9	0.7	4.1
Slovenia	8.9	8.6	7.5	5.7	3.7	2.5	2.5	3.8	5.5	0.9	2.1	2.1
Spain	3.5	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.1	-0.2	2.0	3.1
Sweden	1.3	2.7	2.0	2.3	1.0	0.8	1.5	1.7	3.3	1.9	1.9	1.4
UK	0.8	1.2	1.3	1.4	1.3	2.1	2.3	2.3	3.6	2.2	3.3	4.5
euro area	2.1	2.3	2.2	2.1	2.1	2.2	2.2	2.1	3.3	0.3	1.6	2.7
EU 27	3.5	3.2	2.5	2.1	2.3	2.3	2.3	2.4	3.7	1.0	2.1	3.1
Iceland	4.4	6.6	5.3	1.4	2.3	1.4	4.6	3.6	12.8	16.3	7.5	4.2
Norway	3.0	2.7	0.8	2.0	0.6	1.5	2.3	0.7	3.4	2.3	2.3	1.2
Russia	20.8	21.5	15.8	13.7	10.9	12.7	9.7	9.0	14.1	11.7	6.9	8.4
Turkey	53.2	56.8	47.0	25.3	10.1	8.1	9.3	8.8	10.4	6.3	8.6	6.5
Ukraine	28.2	11.9	0.7	5.2	9.0	13.5	9.1	12.8	25.2	15.9	9.4	8.0
USA	3.4	2.4	0.9	2.3	2.7	3.7	3.2	2.6	4.4	-0.8	1.6	3.2

Sources: Eurostat, IMF, Bureau of Economic Analysis

Notes:

- *n/a: figures not available*
- *Please note that historical data has been revised*
- *Please note that for non-EU countries the national CPIs are given, which are not strictly comparable with the HICPs.*

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29. Population, thousand inhabitants

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Austria	8,002	8,021	8,064	8,100	8,143	8,201	8,254	8,283	8,319	8,355	8,375	8,404
Belgium	10,239	10,263	10,310	10,356	10,396	10,446	10,511	10,585	10,667	10,753	10,840	10,951
Bulgaria	8,191	8,149	7,891	7,846	7,801	7,761	7,719	7,679	7,640	7,607	7,564	7,505
Cyprus	690	698	706	715	730	749	766	779	789	797	803	804
Czech Republic	10,278	10,267	10,206	10,203	10,211	10,221	10,251	10,287	10,381	10,468	10,507	10,533
Denmark	5,330	5,349	5,368	5,384	5,398	5,411	5,427	5,447	5,476	5,511	5,535	5,561
Estonia	1,372	1,367	1,361	1,356	1,351	1,348	1,345	1,342	1,341	1,340	1,340	1,340
Finland	5,171	5,181	5,195	5,206	5,220	5,237	5,256	5,277	5,300	5,326	5,351	5,375
France	60,545	60,979	61,424	61,864	62,292	62,773	63,230	63,645	64,007	64,350	64,694	65,048
Germany	82,163	82,260	82,440	82,537	82,532	82,501	82,438	82,315	82,218	82,002	81,802	81,752
Greece	10,904	10,931	10,969	11,006	11,041	11,083	11,125	11,172	11,214	11,260	11,305	11,310
Hungary	10,222	10,200	10,175	10,142	10,117	10,098	10,077	10,066	10,045	10,031	10,014	9,986
Ireland	3,778	3,833	3,900	3,964	4,029	4,112	4,208	4,313	4,401	4,450	4,468	4,481
Italy	56,924	56,961	56,994	57,321	57,888	58,462	58,752	59,131	59,619	60,045	60,340	60,626
Latvia	2,382	2,364	2,346	2,331	2,319	2,306	2,295	2,281	2,271	2,261	2,248	2,230
Lithuania	3,512	3,487	3,476	3,463	3,446	3,425	3,403	3,385	3,366	3,350	3,329	3,245
Luxembourg	434	439	444	448	455	461	469	476	484	494	502	512
Malta	380	391	395	397	400	403	405	408	410	414	414	418
Netherlands	15,864	15,987	16,105	16,193	16,258	16,306	16,334	16,358	16,405	16,486	16,575	16,656
Poland	38,654	38,254	38,242	38,219	38,191	38,174	38,157	38,125	38,116	38,136	38,167	38,200
Portugal	10,195	10,257	10,329	10,407	10,475	10,529	10,570	10,599	10,618	10,627	10,638	10,637
Romania	22,455	22,430	21,833	21,773	21,711	21,659	21,610	21,565	21,529	21,499	21,462	21,414
Slovakia	5,399	5,379	5,379	5,379	5,380	5,385	5,389	5,394	5,401	5,412	5,425	5,435
Slovenia	1,988	1,990	1,994	1,995	1,996	1,998	2,003	2,010	2,010	2,032	2,047	2,050
Spain	40,050	40,477	40,964	41,664	42,345	43,038	43,758	44,475	45,283	45,828	45,989	46,153
Sweden	8,861	8,883	8,909	8,941	8,976	9,011	9,048	9,113	9,183	9,256	9,341	9,416
UK	58,785	59,000	59,216	59,435	59,697	60,039	60,410	60,781	61,192	61,595	62,027	62,436
euro area	314,098	315,413	316,972	318,909	320,930	323,028	324,584	326,561	328,487	329,973	330,910	331,953
EU 27	482,768	483,797	484,635	486,646	488,798	491,135	493,210	495,292	497,686	499,687	501,104	502,477

Iceland	279	283	287	288	291	294	300	308	315	319	318	318
Norway	4,478	4,503	4,524	4,552	4,577	4,606	4,640	4,681	4,737	4,799	4,858	4,920
Russia	146,300	145,600	145,000	144,200	143,500	142,800	142,200	142,000	141,900	141,900	142,900	142,411
Turkey	66,889	67,896	68,838	69,770	70,692	71,610	72,520	69,689	70,586	71,517	72,561	73,723
Ukraine	49,115	48,664	48,241	47,823	47,442	47,101	46,749	46,466	46,192	45,963	45,783	45,554
USA	282,296	285,216	288,019	290,733	293,389	296,115	298,930	301,903	304,718	307,374	309,732	311,946

Sources: Eurostat, IMF, Bureau of Census

Notes:

- *n/a: figures not available*
- *Please note that historical data has been revised*

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, OECD and from the Bureau of Economic Analysis (for the USA) when not provided by Eurostat.

Mortgage Markets data

Residential mortgage lending outstanding: Total residential loans on lenders' books at the end of the period. Residential loans are loans for the purchase of a private property which can be secured or not secured on the residential property. For instance, not all countries secure residential loans on the property. For example, in Belgium and France loans for house purchase are guaranteed with personal sureties. This definition is, however, still not complete. Second mortgages or other transactions to increase mortgage debt for consumption or improvement of a residential property may be for some countries also included in the definition.

Gross residential lending: Total amount of residential loans advanced during the period. It corresponds to the amount of new mortgage lending which is issued over the period and therefore is often dubbed in the text as "new lending".

Net residential lending: It refers to the new residential loans advanced during the period minus repayments. It also corresponds to the change in outstanding mortgage loans at the end of the period.

Representative Interest Rates

euro area "typical mortgage rate": please note that this mortgage interest rate which is reported in each of the country report tables is the year-end variable mortgage rate which is applied in the euro area (Source: ECB). This is used as a proxy for a European average mortgage rate, since it would be misleading to produce an average mortgage rate by using a simple average of national typical mortgage rates.

National definitions of interest rates used, where available, are the following:

AT: APRC on new loans for house purchase to households;

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

BG: year-end interest rate on long-term loans to households for house purchase;

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

DK: Adjustable mortgage interest rate (mortgage rate referenced to 6-month CIBOR);

EE: Weighted average of the annual interest rate on housing loans granted to households for new EUR denominated loans;

FR: Fixed average rate of secured loans "PAS" with a maturity of 12 and 15 years;

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

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

HU: Variable or initial fixed rate up to 1 year (CHF-denominated);

IE: Variable interest rate (where the fixed-rate term is ≤1 year);

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

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

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

LU: Variable interest rate (≤1 year);

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

NL: Interest rate on total new lending for house purchase, fixed rate from 5 to 10 years;

PL: Variable interest rate (≤1 year);

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

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

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;

SE: Variable interest rate (≤1 year);

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.

US: Representative interest rate on 30-year new mortgage loans (conventional 30-year)

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