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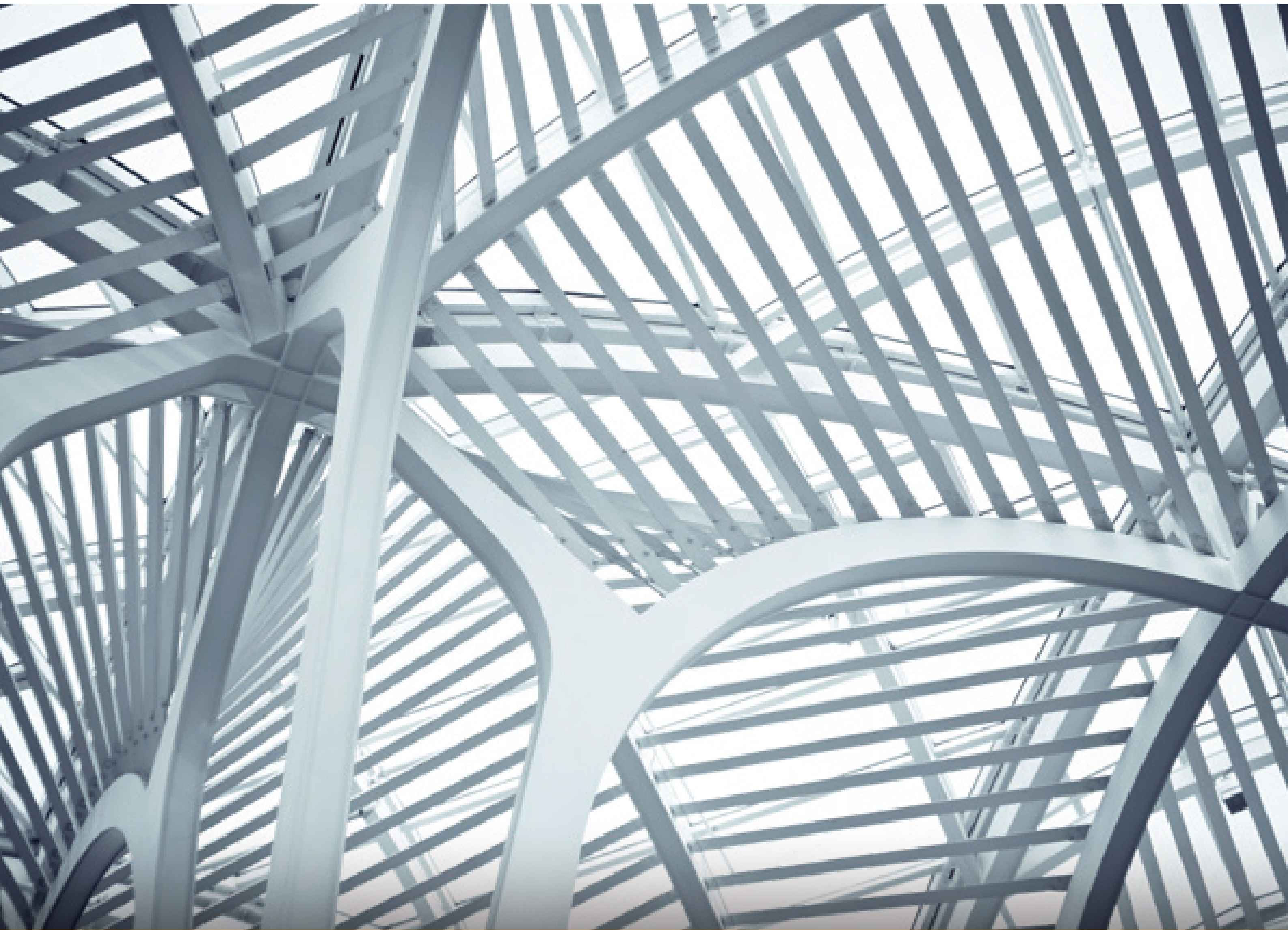

HYPOSTAT 2008 A REVIEW OF EUROPE'S MORTGAGE AND HOUSING MARKETS

EUROPEAN MORTGAGE FEDERATION

Disclaimer

Contact details

Alessandro Sciamarelli
Statistical Adviser
E-mail: asciamarelli@hypo.org
Tel: +32 2 285 40 42

Susan Yavari
Head of Economic Affairs
E-mail: syavari@hypo.org
Tel: +32 2 285 40 46

Rodolfo Labadie
Economic Adviser
E-mail: rlabadie@hypo.org
Tel: +32 2 285 40 41

LIST OF CONTRIBUTORS OF DATA AND ANALYSIS

BELGIUM

Frans Meel
Adviser
Union Professionnelle du Crédit (Febelfin)
E-mail: frans.meel@febelfin.be

CZECH REPUBLIC

Jindrich Thon
Hypoteční banka
E-mail: thon.jindrich@hypotecnibanka.cz

DENMARK

Kaare Christensen
Association of Danish Mortgage Banks
E-mail: kc@realkreditraadet.dk

FINLAND

Ari Laine
Senior Statistical Officer
Housing Fund of Finland
E-mail: ari.laine@ara.fi

FRANCE

Jean Marie-Gambrelle
Directeur des Relations Internationelles
Union Sociale de l'Habitat
E-mail: jean-marie.gambrelle@creditimmobilierdefrance.com

Marielle Thomas
Direction des Etudes Economiques et Financières
Union Sociale pour l'Habitat
E-mail : marielle.thomas@union-habitat.org

GERMANY

Thomas Hofer
Verband deutscher Pfandbriefbanken
E-mail: hofer@pfandbrief.de

GREECE

Theodore Mitrakos
Economic Research Department
Bank of Greece
E-mail: TMitrakos@bankofgreece.gr

HUNGARY

Joszef Hegedus
Managing Director
Metropolitan Research Institute
E-mail: hegedus@mri.hu

IRELAND

Tom O'Connor
Adviser
Irish Banking Federation
E-mail: tom.oconnor@ibf.ie

ITALY

Angelo Peppetti
Retail Credit Department
Associazione Bancaria Italiana
E-mail: a.peppetti@abi.it

LITHUANIA

Jonas Grincius
Chief Financial Officer
Parex Bank
E-Mail: grinciusjr@hotmail.com

MALTA

Peter Sant
Economic Research Officer EU Affairs
Bank of Valletta
E-mail: peter.sant@bov.com

NETHERLANDS

Marja Elsinga
Delft University of Technology
E-mail: m.g.elsinga@tudelft.nl

POLAND

Agnieszka Nierodka
Mortgage Credit Foundation
E-mail: a.nierodka@ehipoteka.pl

PORTUGAL

José Jesus Martins
Manager
Caixa Economica Montepio Geral
E-mail: jjmartins@montepiogeral.pt

ROMANIA

Sergiu Oprescu
Business Manager
Alpha Bank Romania
E-mail: s.oprescu@alphabank.ro

SLOVAKIA

Miroslava Mizerakova
Mortgage Broker/Lawyer
Hypocentrum, a.s.
E-mail: mirka.mizerakova@hypocentrum.sk

SLOVENIA

Andreja Cirman
University of Ljubljana
E-mail: andreja.cirman@fdv.uni-lj.si

Srna Mandič
University of Ljubljana
E-mail: srna.mandic@fdv.uni-lj.si

SPAIN

Lorena Mullor Gomez
Economist
Asóciacion Hipotecaria Española
E-mail: lorena.mullor@ahe.es

Irene Peña Cuenca
Asóciacion Hipotecaria Española
E-mail: ipcuenca@ahe.es

SWEDEN

Christian Nilsson
Economist
Swedish Bankers' Association
E-mail: christian.nilsson@bankforeningen.se

UNITED KINGDOM

James Tatch
Council of Mortgage Lenders
E-mail: james.tatch@cml.org.uk

ICELAND

Magnus Arni Skulason
Reykjavik Economics ehf
E-mail: magnus@reconomics.is

NORWAY

Odd Kristiansen
Adviser
Norwegian State Housing Bank
E-mail: odd.kristiansen@husbanken.no

RUSSIA

Andrey Krysin
President of European Trust Bank
European Trust Bank
E-mail: bis@etrust.ru

SERBIA

Goran Milicevic
University of Belgrade
E-mail: goran.milicevic@isp.b92.net

UKRAINE

Oleksiy Pylipets
Ukrainian National Mortgage Association
E-mail: pilipets@unia.com.ua

Oleksandr Moiseienko
Ukrainian National Mortgage Association
E-mail: moiseienko@unia.com.ua

UNITED STATES OF AMERICA

Dwight Jaffee
Professor of Banking and Finance
Haas School of Business
University of California, Berkeley
E-mail: jaffee@haas.berkeley.edu

Sean Wilkoff
Haas School of Business
University of California, Berkeley
E-mail: swilkoff@haas.berkeley.edu

OTHER

Claude Taffin
Housing Finance Economist
The World Bank, Washington
E-mail: ctaffin@worldbank.org

Michael Ball
Professor of Urban and Property Economics
University of Reading
E-mail: m.ball@henley.reading.ac.uk

Note: Housing and Mortgage Markets in 2008 overview and other country chapters written by the EMF

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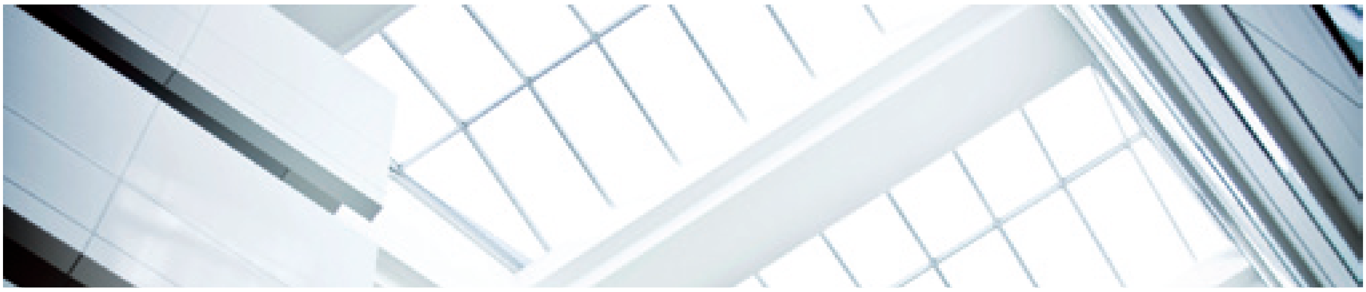

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Note

The Hypostat, the annual statistical compendium on EU mortgage and housing markets published by the EMF, enlarges its scope this year well beyond the borders of Europe and includes for the first time data on the United States. This is in recognition of the important fall-out of the international US-triggered subprime loans crisis, which was among the factors behind the credit crisis and the loss of confidence, as well as the macroeconomic downturn of 2008. These factors were also reflected in figures for mortgage and housing indicators in 2008 across the EU.

For the sake of immediate cross-country comparability and homogeneity, national annual values for mortgage lending indicators in the statistical tables are expressed in Euros. We are fully aware that this may cause some problems in the correct interpretation of the data itself, due to the potentially considerable exchange rate effects which can distort the size of mortgage lending figures expressed in national currencies.

Key Facts

Annual 2008 statistics on the European mortgage markets reveal that the generalised slowdown - first reported by the EMF in the first half of 2007[1] - continued in marked contrast with the very buoyant performance of previous years. Mortgage activity across the EU was largely driven by monetary tightening by the ECB in July 2008 as inflationary pressures in the economy built up; this was later offset by an expansionary monetary policy in the last quarter of the year, while at the same time lenders' difficulty in raising funding resulted in tightened lending criteria. In addition, macroeconomic fundamentals and general economic sentiment rapidly deteriorated in the second half of 2008. Nominal house prices in many EU markets recorded year-on-year falls, although these drops in housing values should be put in the context of the peaks they had reached around 2006. The continued slowdown which was observed in housing and mortgage markets during 2008 should be seen in the context of worsened conditions both in the macroeconomic and mortgage funding environments which exacerbated an expected correction after the record levels reached at the end of an extraordinarily buoyant past cycle.

In summary, Hypostat 2008 provides the following information:

- In the EU27 the aggregate volume of residential mortgage lending outstanding slightly decreased for the first time on record, from 6.2 trillion Euros (or 6,160,877 million Euros) in 2007 to 6.1 trillion Euros (or 6,087,928 million Euros) in 2008, which represents a negative annual growth rate of 1.2%, in comparison with the 11.6% and 7.9% positive growth rates recorded in 2006 and 2007 respectively. Residential mortgage lending in the EU27 also accounted for 49.8% of the EU`s GDP (51.2% in 2007);
- While remaining largely positive in several EU countries, growth rates in total outstanding mortgage loan volumes slowed down in comparison to 2007 almost everywhere. As in previous years, the new Member States of the EU27 recorded much higher annual growth rates than the EU15 Member States;
- Only two out of the EU27 Member States experienced higher growth in outstanding mortgage loan volumes in 2008 compared to 2007, and these were Austria and Poland. The countries that recorded negative annual growth rates in outstanding mortgage loans expressed in Euros were the UK (-16.4%), although it is worth noting that this contraction was due to the exchange rate effect with the dramatic fall of the Pound in Q4 2008 – when expressed in Pounds outstanding mortgage loans in the UK actually increased by 3.2%[2] in 2008. Germany also saw negative growth (-0.7%), marking the second annual decrease given that in 2007 the German market recorded an annual decrease of 2.4%;
- As regards growth rates in gross residential loans, while these had generally been much more moderate compared to previous years (or even negative) in most countries in 2007, in 2008 they were sharply negative in all the EU countries surveyed. Evidence of positive growth rates could be observed only in Germany (1.8%);
- Housing supply, both in terms of housing starts and building permits issued fell significantly in several EU countries in 2008. After some signs of cooling-off in residential construction activity which were already reflected in 2007 data, falls in housing supply indicators were recorded in all countries for which information is available, with the exception of Romania. More severe falls were reported in countries which recorded historical peaks in residential construction activities in the past housing cycle;
- With regard to house prices in nominal terms, the correction process from record levels reached around 2006 continued in 2008 and led to negative year-on-year growth rates in many EU15 countries. Also in the markets where positive increases were reported, these growth rates were significantly lower than 2007. On average, nominal house prices increased by 0.3% in the EU27 and, according to ECB data, a growth rate of 1.7% was recorded in the euro area;
- Interest rate increases by the ECB and other EU central banks in the third quarter of 2008 can partly explain the downturn in the EU's residential mortgage markets in the second half of the year. Though by the last quarter of 2008, the ECB dramatically reversed its monetary policy and lowed its central rate by 175 basis points (from 4.25% in October 2008 down to 2.50% at the end of the year) in order to relaunch economic activity, and ease interbank lending. This was also intended to alleviate ongoing funding problems for mortgage banks and support mortgage markets, by passing these cuts to mortgage interest rates;
- Mortgage interest rates in the EU and in the euro area substantially increased from December 2007 to November 2008 across all loan maturities; these increases were higher than those recorded from December 2006 to December 2007. Yet, interest rates dropped dramatically in December 2008 after the large cuts in the ECB repo rate in the last quarter of 2008 and thus saw a return to the levels observed in the same month of the previous year. However, due to accelerating inflation in the euro area, real interest rates remained at low levels, which helped soften the mortgage market slowdown. The increase in nominal mortgage interest rates during 2008 contributed to the shift in borrowers` preference towards longer-term and fixed rate mortgages.

[1] See *EMF Quarterly Review Statistics*, Q2 2007 and Q3 2007.

[2] It should also be reminded that the largely negative performance in outstanding mortgage lending (expressed in Euros) in the UK determined the negative growth rate in the aggregate EU27 mortgage lending, since the UK market in 2008 accounted for 24.0% of the aggregate EU27 market.

Housing and mortgage markets in 2008

1. MACROECONOMIC OVERVIEW

In 2008 real GDP growth in the EU27 was only 0.8% against 2.9% in 2007 and 3.1% in 2006. In the euro area real GDP growth was also 0.8%. After a considerable slowdown in the first two quarters of the year, the second half of 2008 saw further weakening in economic activity. The modest economic growth in the EU was due to drops in both internal demand (particularly gross fixed investment) and exports, resulting in flat contributions to GDP growth. The strongest support to economic growth came from private consumption (though at a meagre 0.9%), which sustained the economy despite the continued decline in consumer confidence throughout 2008, as measured by the *Business and Consumer Surveys* carried out by the European Commission[3].

Huge increases in oil prices and other commodities over the first half of the year fuelled growing inflationary pressures which led the ECB to increase its repo rate in the euro area by 25 basis points (bps) in July 2008, from 4.00% to 4.25%. This was the first repo rate hike since June 2007. However, in October, the ECB reversed its policy and lowered interest rates by 50 bps. This rate cut was then followed by two further cuts, the first in November by 50 bps and the second in December by 75 bps, so that at the end of 2008 the repo rate in the euro area was 2.50%. This expansionary stance in monetary policy was expected to continue in the next year, due to the ongoing deterioration of the macroeconomic environment and the dramatic developments in inter-bank lending markets as a consequence of the credit crisis.

The global recession that hit the world economy during the last two quarters of 2008 severely affected the macroeconomic environment of the EU, and many EU countries experienced a decline in real GDP for the first time in over a decade. As a result, output growth differed considerably between the EU27. As in the first years that followed their membership of the EU, the strongest growing countries in the EU were among the new Member States, such as Romania (7.1%), Slovakia (6.4%), Bulgaria (6.0%) and Poland (5.0%). However, other new Member States, where buoyant economic growth had by far outpaced that of the EU15 in past years, were also hit by economic recession, such as Estonia (-3.6%) and Latvia (-4.6%), while all the other CEECs recorded much lower increases in real GDP than in 2007. The countries which experienced a recession in the EU15 were Ireland (-2.3%), Denmark (-1.1%), Italy (-1.0%) and Luxembourg (-0.9%) while growth rates were lower than in 2007 and 2006 all across the rest of the EU15.

In 2008, inflation in the EU27 (measured as the Harmonised Index of Consumer Prices) accelerated in comparison with 2007 due to the considerable pressures on prices in the first half of the year, reaching 3.7% on yearly average (1.4 points above 2007). In the euro area it was slightly below the EU27 level (3.3%, that is 1.2 points above 2007). Inflation rates were therefore generally higher in 2008 than in 2007 in all EU countries. The countries which recorded lowest inflation rates were Portugal and Germany with 2.8% and 2.7% respectively, which were however above the 2% inflation target set by the ECB. As a result of their more sustained economic growth, CEECs such as Bulgaria, Lithuania and Romania recorded inflation rates well above the EU27 average (12.0%, 11.1% and 7.9% respectively), but also countries which experienced economic recession in 2008 recorded very high inflation rates, such as Estonia (10.6%) and Latvia (15.3%).

The labour markets in the EU suffered from negative developments in the general economic scenario only to a limited extent, according to the data available at the end of 2008. Nevertheless the employment outlook across the EU for 2009 worsened sharply in the last quarter of the year. In fact, in the aggregate EU27 employment growth in 2008 clearly slowed down but was still positive (0.9%, from 1.8% in 2007). Unemployment rate in the EU27 on yearly average remained stable (7.0%, after 7.1% in 2007), but dramatic rises in unemployment rates were observed in some countries over the last quarter of the year. In Spain, annual average unemployment rate went above 10% for the first time since 2004, while in many other EU15 countries annual average unemployment rates also increased. These developments in unemployment rates in 2008 were more consistent with a non-recession scenario (i.e.more like lower economic growth) in some countries. Moreover, there is empirical evidence from the economic literature which shows that in countries that experience recession the adjustment of the labour market to changes in the macroeconomic environment appears with a time lag[4], so that the decrease in real GDP was not yet reflected in the 2008 unemployment figures.

2. HOUSING MARKETS

2.1 Housing Supply Developments

The importance of housing supply indicators has increased over recent years. The number of building permits issued and housing starts, on the one hand, and the number of housing completions on the other, are indicators of changes in the supply side. The former can be interpreted in terms of expected changes in the supply side, while housing completions measure the most recent changes in the supply side and usually react to changes in building permits and housing starts.[5] Typically, the rise in house prices over the last housing cycle is explained by the impact of fundamental factors such as demographics, changes in interest rates and income, but the role of housing supply should not be ignored; it can alleviate in the long run pressures in the market and can contribute to softening house price increases. One of the major factors behind the collapse of house prices in the US was the excess supply in fixed investment in housing between 1997 and 2006.[6]

In 2008, the numbers of building permits, housing completions and housing starts provided evidence of a further decline in housing supply in EU countries for which data is available. This was the result of of the harsh correction in the housing market cycle which began in 2007 after years of sustained growth (Chart 1)[7]. In addition, this was exacerbated by deterioration in the macroeconomic environment during 2008, and the outlook for growth and employment. Due to the unavailability of data for some countries, it was not possible to collect aggregate figures for all EU27 countries. However, taking into account a group of 8 countries for which a full set of data from 1998 to 2008 is available (Czech Republic, Denmark, Hungary, Finland, Poland, Slovakia, Spain, Sweden), historical data shows that residential building activity returned to almost 1998 levels.

Such corrections in activity were to some extent predictable given the preceding four years of sustained growth, fuelled by the initial expectations of a sustained and long-lasting increase in housing demand.

As a result of expectations of continued easing in housing markets, in 2008 building permits decreased in all the EU countries observed, except for Romania where the number of building permits issued increased by 7.9%, although less than in 2007 (10.9%). Yet, in some countries the drop was less pronounced than in 2007. For example, in Germany it was much less marked than in 2007 (-4.2%, versus -26.3% in the previous year), bearing in mind that 2007 was the first year following the abolishment of subsidies which had boosted residential construction activity in 2006. It is worth noting that Germany has been countercyclical compared with other EU countries which experienced an extraordinary growth in housing supply in the past years.

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3 See European Commission, http://ec.europa.eu/economy_finance/db_indicators/db_indicators8650_en.htm

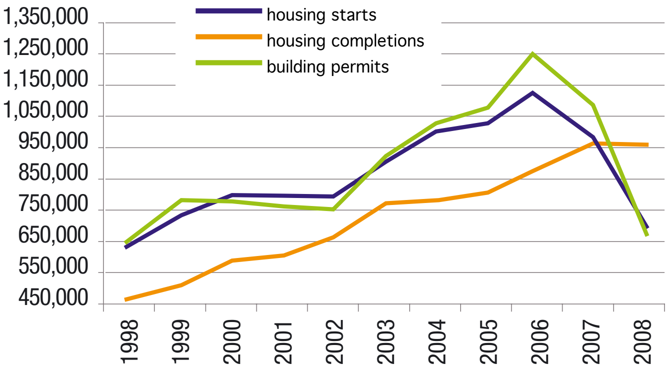
4 See, *inter alia, The dynamic effects of shocks to wages and prices in the United States and the euro area* by R. Duarte and C. R. Marques, ECB Working Papers no. 1067, July 2009, and *Estimating the costs and benefits of EMU: the impact of external shocks on labour markets*, by A. Belke and D. Gros, in Review of World Economics, Vol.135, No.1, 1999.

5 See *Booms and Busts in housing markets: determinants and implications*, by L. Agnello and L. Schuknecht, ECB Working Paper Series no. 1071, July 2009.

6 See the Country Chapter on the United States for more details. For a more detailed focus on the role of housing supply in explaining housing market cycles, see `Recent house price developments: the role of fundamentals`, N. Girouard, M. Kennedy, P. van den Noord and C. André, Economics Department Working Papers No. 475, OECD, 2006.

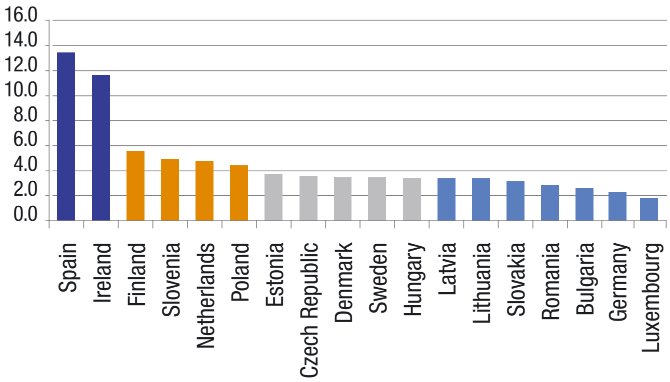
7 It is worth recalling that, due to the more limited availability of historical data for the above indicators in some countries, EU27 aggregate figures cannot be compared on a year-on-year basis.

CHART 1 ▶ Housing Supply Indicators, 1997-2008, EU 8 (CZ, DK, FI, HU, PL, SK, ES, SE)



Source: European Mortgage Federation

CHART 2 ▶ HOUSING COMPLETIONS PER 1000 INHABITANTS - 2008



Source: European Mortgage Federation

The fall in the number of building permits was more moderate than in 2007 in Sweden (-13.4%, compared to -37.3% in 2007[8]), but accelerated in Finland (-19.6%, compared to -7.8% in 2007). In Greece, due to the fact that more severe consequences for housing activity had already been recorded in 2006 (-14.4%) when the new tax regime on properties entered into force, in 2007 the decrease in housing activity had been milder (-5.3%), but the cooling-off accelerated again in 2008 with a more pronounced fall (-15.8%).

Housing starts decreased everywhere in the EU15 economies in 2008 following on from the year-on-year falls recorded in 2007. In Ireland, housing starts fell by 53.2% down to 22,852 units indicating that the tightening of housing supply is likely to continue into 2009 as the sustained decline in the construction sector in this country was also demonstrated by the 33.7% fall in completions to 51,724 units in 2008. The construction slowdown translated into increasing unemployment and falling tax revenues in the first instance, before impacting on the wider economy.

In Denmark and Sweden the decreases in the number of housing starts in 2008 (by 27.2% and 20.9% respectively) were less pronounced than in 2007 (39.5% and 37.9%[9]), while in Finland the fall in housing starts resulted in a more pronounced negative growth rate in 2008 (19.6%) than in 2007 (8.6%). France experienced a negative growth rate in housing starts (-15.3%) for the first time since 2002. According to available data, a downturn in housing activity was also recorded in Poland, where year-on-year growth was negative (-5.6%) after recording sustained annual increases since 1999. The same was true for all CEECs for which housing starts data was available except for Romania.

In Spain the number of housing starts fell by 41.5% on the previous year (after a drop of 19.0% in 2007 over 2006) and remained far below the number of completions. This was largely the consequence of a large adjustment in the production of new dwellings as a response to the severe drop in housing demand.

As regards housing completions, though year-on-year decreases were recorded in 2008 in most countries for which data was available, these falls were much less severe than for housing starts and building permits. Among the EU15 countries, positive year-on-year developments in completions were recorded only in Sweden (by 13.1%), while most of the new Member States still recorded significant increases in housing completions, such as Romania (36.2%), Lithuania (27.0%), and Poland (23.5%), as a consequence of a very sustained housing activity in the previous years.

According to EMF figures on housing completions per 1,000 inhabitants in 2008 (Chart 2), the gap between the EU15's mature housing markets and the markets of the Central and Eastern European countries narrowed in comparison to previous years. This would suggest that the "catching-up" in residential construction in the latter countries has accelerated, due both to the sharp downturn in housing activity in most EU15 countries, and to the buoyant state of housing demand in almost all CEECs.

Indeed, compared to the 2007 picture, national data available for 2008 shows a general decline in values, which is consistent with a scenario of much reduced housing completion activity. Data in the EU27 range from a value of 13.6 in Spain to 1.9 in Luxembourg (in 2007 the highest level was Ireland with 18.0 and the lowest was Lithuania with 0.1).

In Ireland, one of the `housing boom countries` it fell from 18.0 in 2007 to 11.8 in 2008, which was the biggest decrease from the previous year. As far as CEE countries are concerned, the figure went up above 4 completions per 1,000 inhabitants in Poland, above 2 in Romania and above 3 in Lithuania. For all these countries, this signalled an increase in housing completions on 2007.

2.2 Trends in House Prices

From 1996 to 2008 Ireland, the UK and Spain have been the countries where housing supply responded more rapidly to strong housing demand and also the countries which recorded the strongest increase in house prices in the period (Chart 3).

Chart 3 shows increases in house prices from 1996 to 2008. Growth rates in house prices became extremely dynamic. Ireland outperforms the other countries in the whole period, while Spain and the UK have similar house price inflation and their growth rates are also far above the EU average. In 2007 house prices started slowing down, coming off the record highs in house price indices reached in 2006 which had been fuelled by the very buoyant developments in housing demand of the previous years.

In 2008, this slowdown resulted in year-on-year falls in some EU countries that were in some cases dramatic and in others more moderate. House price growth rates in nominal terms remained positive in some EU countries, but they decelerated sharply, particularly in the more mature EU15 housing markets where some year-on-year falls were reported for the first time in years. Signs of continuing cooling off in the CEECs housing markets were observed throughout 2008 after the record levels in house prices seen in the previous cycle. On

[8] It should be noted that, in Sweden, the sustained growth in building permits in 2006 and the sharp fall in 2007 were due to the abolishing of interest rate subsidies starting from 2007, when the interest rate subsidies and the investment grants were abolished. It is estimated that 7,000 to 8,500 housing starts were brought forward before the 1st of January 2007 due to the abolished subsidies. The housing starts, including the additional housing starts, had increased by 42.5% (up to 45,600 units) in 2006.

[9] See footnote 8, page 11.

average, nominal house prices increased by 0.3% in the EU27 and a growth rate of 1.7% was recorded in the euro area.

In 2007 Ireland had been the only EU country recording a negative growth rate in house prices (-7.3%), and in 2008 the year-on-year fall was more serious (-9.1%). Countries that had experienced a clear slowdown in house price growth in 2007 recorded sharp decreases in house prices for the first time such as Denmark (-5.1%), France (-2.9%) and the UK (-0.9%); in the latter country, growth in house prices, albeit already slowing down, was still positive in the first two quarters of the year[10]. In Portugal house prices fell by 6.3%, after the 1.2% fall in 2007. Spain, on the other hand, recorded a negative growth rate in house prices only in the last quarter of the year, and this explains the positive annual year-on-year growth rate in 2008 of 0.7%. However, the slowdown in house price growth rates in the Spanish market to date since the peak in prices (Q3 2006) was significant.

Countries such as the Netherlands and Sweden had also experienced large increases in house prices, although not as high as the `housing boom countries` (Chart 3). These countries recorded no harsh correction in house prices by the end of 2008. In the Netherlands, growth in house prices was flat (-0.1%), and in Sweden a year-on-year increase (2.9%) – albeit much more moderate than in 2007 (10.9%) - was observed. These results can be partly explained by country-specific situations. In the Netherlands, a large part of housing supply was for consumption rather than for second homes, which left less room for speculation. The Swedish housing market experienced a less dramatic correction in house prices than other EU markets to some extent explained by a chronic housing shortage which helped to soften the downturn in prices.

In these and in other EU countries, the very positive developments in housing supply recorded in previous years across the EU did not lead to an excess over demand. The slowdown in housing supply in 2007 contributed to the easing of house price dynamics, as house prices tended to stabilise rather than dramatically fall due to the general absence of any excess of housing supply in the EU, a few countries excepted.

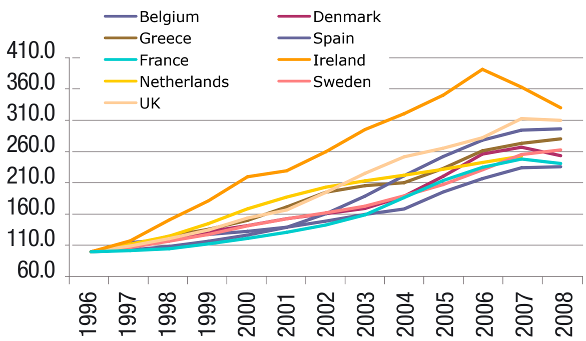
Moreover, the deceleration in house prices still needs to be put in the context of the historical peaks that were recorded around the second half of 2006. In addition, it should be noted that at the end of 2008 nominal house price indices remained very high in absolute levels.

Other examples of positive but further slowing growth rates in house prices in 2008 (following on from the deceleration recorded in 2007, after years of sustained growth in prices) include Belgium (0.7% from 8.1% in 2006), Italy (1.3% from 5.5% in 2007), and Greece (2.6% from 4.6%). In Austria, growth in house prices was flat (0.0%) for the first time since 2004.

In Germany, after the positive increases recorded in 2007 (1.7%) which marked a change in the housing cycle after the stagnation observed since 2001, the housing market showed signs of further vitality and prices grew by 5.2%, the highest increase among EU15 countries. More broadly, in 2008 housing indicators (both on the supply and on the demand side), confirm that recent developments in Germany were countercyclical in comparison with the rest of the EU[11].

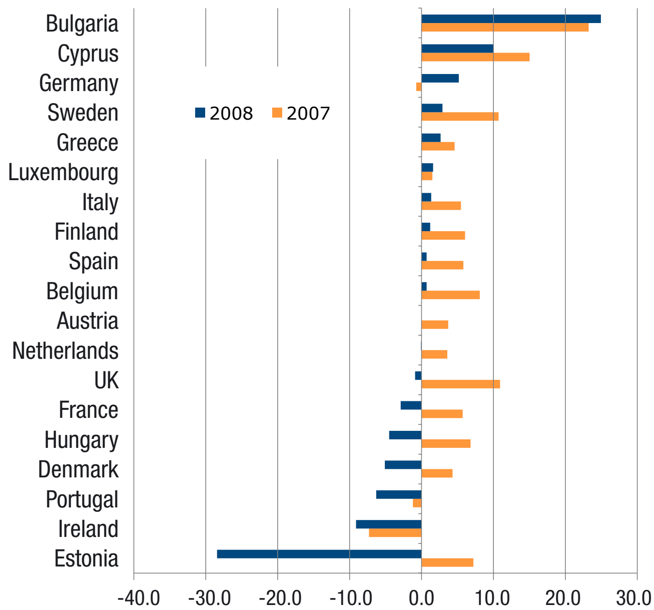
In the CEECs, which experienced very buoyant housing market conditions over the past years, the scenario was mixed. According to provisional data, in 2008 Hungary experienced a housing market recession for the first time since 2004, when the new series of house price index became available (house prices fell by 4.5% on 2007), and so did Estonia, where the drop in house prices was much more dramatic (-28.4%, which was the deepest fall in house prices recorded in the EU27). In Bulgaria, on the contrary, house prices grew more than the previous year (24.3% after 23.2%).

CHART 3 ▶ Nominal House Price Indices, 1996-2008 (1996=100)



Source: European Mortgage Federation

CHART 4 ▶ Nominal House Prices` Growth Rates in 2008 and 2007, %



Source: European Mortgage Federation

3. Mortgage Markets

3.1 Mortgage Market Developments

In 2008, the total volume of residential mortgage lending outstanding expressed in Euros in the aggregate EU27 decreased for the first time on record, from 6.2 trillion Euros in 2007 (or 6,160,877) to 6.1 trillion Euros in 2008 (or 6,087,928 million Euros)[12], which represents a negative annual growth rate of 1.2%, in comparison with the 11.6.% and 7.9% positive growth rates recorded in 2006 and 2007 respectively, although it is worth noting that this contraction was due to the exchange rate effect with the dramatic fall of the Pound in Q4 2008 –when expressed in Pounds outstanding mortgage loans in the UK actually increased by 3.2%. In 2008, residential mortgage lending in the EU27 accounted for 49.8% of the EU`s GDP (51.2% in 2007).

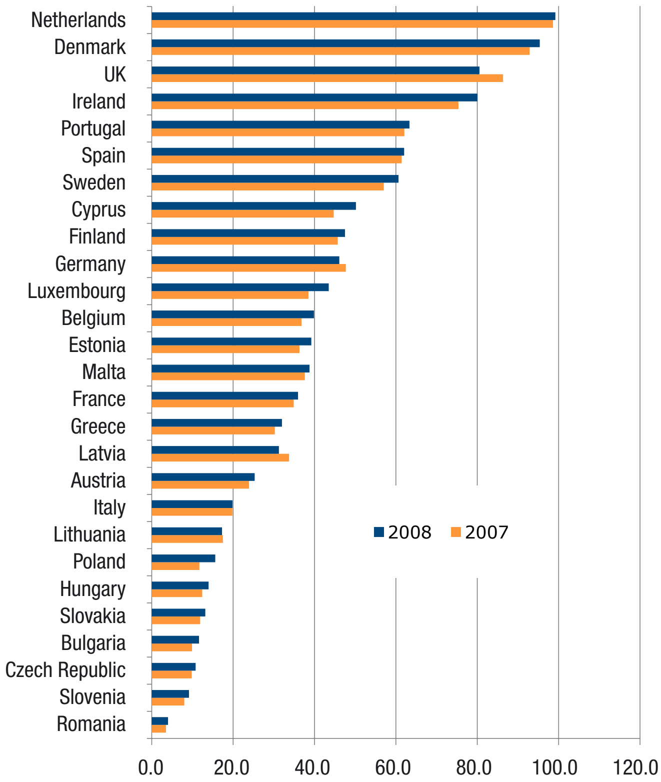
This decrease in aggregate residential mortgage lending came as a result of the continued general slowdown in mortgage market growth rates across the EU, a trend already reflected since the EMF Quarterly Review of Q2 2007 and reinforced in the 2007 edition of the Hypostat. However, once put in context, the declining performance in outstanding residential mortgage lending in 2008 can be seen as a correction after recording sustained increases in the past years. When looking at historical data, evidence suggests that the importance

[10] See EMF Quarterly Reviews no Q1 2008 and Q2 2008 for details.

[11] See Country Report on Germany for details.

[12] For more details see table 12 in the statistical tables section.

CHART 5 ▶ Residential Mortgage Debt to GDP ratio (%), EU27, 2008 and 2007



Source: European Mortgage Federation, Eurostat
Please note that, due that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with earlier figures

Table 1 ▶ Residential Mortgage Debt to GDP ratio (%), 1998 - 2008

	1998	2008	growth in mortgage debt 1998-2008
Austria	n/a	25.3	n/a
Belgium	26.5	39.8	13.3
Bulgaria	n/a	11.6	n/a
Cyprus	n/a	50.2	n/a
Czech Republic	n/a	10.8	n/a
Denmark	75.0	95.3	20.3
Estonia	3.7	39.2	35.5
Finland	29.5	47.5	18.0
France	20.0	35.9	15.9
Germany	51.9	46.1	-5.8
Greece	6.3	32.0	25.7
Hungary	n/a	14.0	n/a
Ireland	26.5	80.0	53.1
Italy	7.8	19.8	12.0
Latvia	n/a	31.2	n/a
Lithuania	0.9	17.3	16.4
Luxembourg	23.3	43.5	20.2
Malta	n/a	38.8	n/a
Netherlands	60.8	99.1	38.3
Poland	1.5	15.6	14.3
Portugal	n/a	63.3	n/a
Romania	n/a	4.0	n/a
Slovakia	n/a	13.2	n/a
Slovenia	n/a	9.1	n/a
Spain	23.8	62.0	38.2
Sweden	44.5	60.6	16.1
UK	50.6	80.5	29.9
EU27	**33.2**	**49.8**	**16.6**

Source: European Mortgage Federation, Eurostat

of mortgage lending within the EU economy has in fact grown enormously. Total growth in mortgage lending as a percentage of GDP from 1998 to 2008 is reported in Table 1, while national data on mortgage lending as a percentage of GDP in 2008 and in 2007 are reported in Chart 5.

As far as national data is concerned, while total outstanding residential lending volumes continued to register high growth rates in a number of EU countries, there was a noticeable slowdown in growth compared to what was recorded in 2007.

The latest boom cycle in housing and mortgage markets in the EU, from 2002 to 2007, gave way to a combination of rising mortgage rates (up to November 2008), slowing growth in house prices, decreasing confidence among consumers and growing funding problems for mortgage banks. Moreover, there was some basis for believing that the EU mortgage markets started slowing down already in 2007, but that the international crisis resulting from subprime loans-originated in the US in 2008 precipitated developments in mortgage lending in the EU.

The overall EU picture was characterised by positive performances in mortgage markets for the new Member States, which all experienced growth in mortgage lending exceeding 15% (with the exception of the three Baltic countries and Malta). Out of the EU15 Member States, only Luxembourg and Greece recorded comparable growth rates. Only two out of the EU27 Member States experienced higher growth in outstanding mortgage loan volumes in 2008 than in 2007: Austria and Poland. The countries which recorded negative annual growth rates in outstanding mortgage loans expressed in Euros were the UK (-16.4%), although it is worth noting that this contraction was due to the exchange rate effect with the dramatic fall of the Pound in Q4 2008 –when expressed in Pounds outstanding mortgage loans in the UK actually increased by 3.2%[13] in 2008 - and Germany which also saw negative growth (0.7%), marking the second annual decrease given that in 2007, the German market saw a decrease of 2.4%.

In general, the large differences in annual increases in outstanding residential lending between the mature markets of the EU15 countries and in the CEES were confirmed by 2008 figures (see Chart 6).

Among the CEECs, the three Baltic countries recorded much weaker performances also as a result of the dramatic deterioration both in their macroeconomic environments and in inter-bank funding over the second half of 2008. In Latvia, growth rate in outstanding residential loans in 2008 was only 6.1% (from 43.9% recorded in 2007). The same remarkable deceleration in mortgage markets' growth rates was observed in Estonia and Lithuania, where growth in mortgage lending in 2008 (10.3% and 14.9% respectively) was less than a half that of 2007 (31.5% and 61.8%). Mortgage lending developments continued to be extremely positive for Poland, Slovakia and Romania, all countries where growth in mortgage lending outpaced 20%, which were by far the fastest growing markets in the EU27 in 2008.

The fastest growing mortgage markets in the EU15 in 2007, Luxembourg (22.1%), Greece (21.4%), and Spain (13.1%), all recorded more moderate

13 It should also be reminded that the largely negative performance in outstanding mortgage lending (expressed in Euros) in the UK determined the negative growth rate in the aggregate EU27 mortgage lending, since the UK market in 2008 accounted for 24.0% of the aggregate EU27 market.

lending growth rates in 2008 (15.1%, 12.0% and 4.3% respectively).

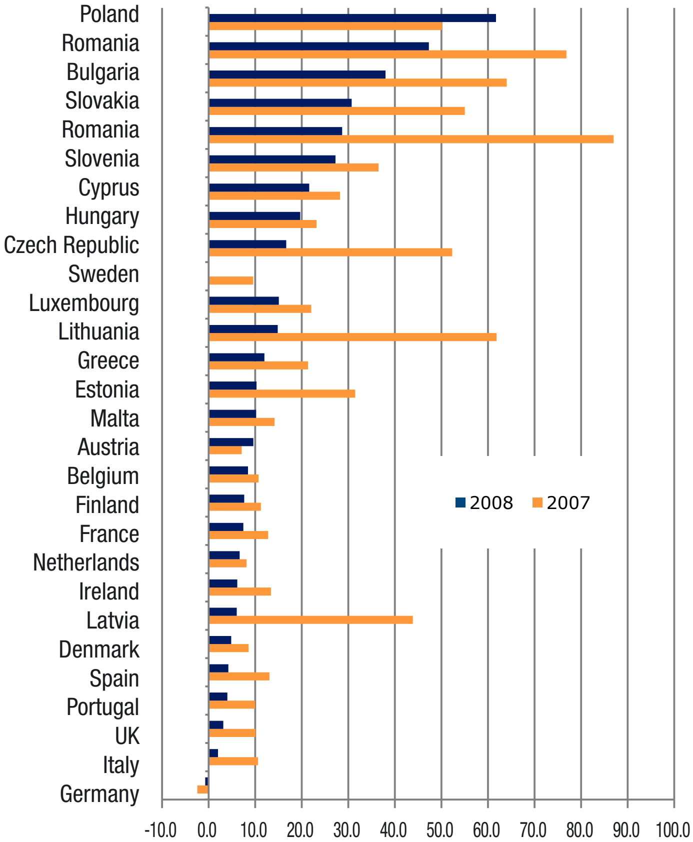
In all remaining EU15 countries, except for Austria, (9.6% in 2008 against 7.1% in 2007) the slowdown in mortgage activity from 2008 to 2007 was quite pronounced. Growth rates in outstanding residential lending as of the end of 2008 were significantly lower than the previous year in Belgium, Finland, France, Italy, Netherlands, Portugal.

As regards growth rates in gross residential loans, i.e. in new lending (for the definitions of lending indicators, see the annexed `Explanatory Note on Data`) while these had generally been much more moderate compared to the previous years in most countries in 2007 (or even negative), in 2008 they were sharply negative in all the EU countries surveyed. Evidence of positive growth rates could be observed only in Germany (1.8%).

In general, looking at quarterly developments since Q4 2007, it can be observed that after the peaks in new lending that were reached around the second half of 2008, new lending activity generally started decreasing significantly across the EU on a year-on-year basis. The easing in markets continued and by the end of 2008 it led to sharp negative year-on-year growth rates in several EU markets. As regards major EU15 markets, new lending growth rates were negative for the second year in a row in France (-16.9%, from -1.5% in 2006), Spain (38.2%, from-13.3%), Denmark (-14.7%, from -13.4%), and Ireland (-31.8%, from -15.2%). Portugal and the UK recorded decreases in new lending for the first time since 2003 and 2005 respectively, which were the sharpest declines in the EU27 (-48.4% and -42.6%). Finland (-7.8%) and Sweden (-11.7%) also experienced a slump after their recovery in 2007 (of 7.2% and 10.1% respectively).

As regards the CEECs for which data is available, in two out of the three Baltic countries falls in new lending activity were reported (14.7% in Estonia and 9.7% in Lithuania).

CHART 6 ▶ Mortgage markets` growth rates, 2008 and 2007 (%)



Source: European Mortgage Federation

Notes:

- *annual growth rates are calculated on values in national currencies; note that annual growth rates in mortgage lending for Bulgaria and Denmark were the same as if they were calculated in Euro values given that these countries' currencies are pegged to the Euro according to the ERM-2 (Exchange Rate Mechanism);*
- *please note that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with earlier figures*

3.2. Interest Rates Developments

It has been widely reported that one of the major reasons for the buoyant developments in mortgage markets in the EU over the last ten years has probably been the decline in mortgage interest rates in the euro area which started in the mid 1990s and continued into the 2000s. This declining trend led to historically low levels but after Q4 2005 (Chart 7) interest rates started to increase due to expectations of an increase in the ECB repo rate, marking the beginning of a period of tightened monetary policy. Therefore, mortgage interest rates in the euro area started increasing from 2006 to 2008 as a response to the ECB`s tightened monetary action, but remained at low levels if put in historical context and if considered adjusted for inflation.

According to EMF data on representative mortgage interest rates[14] (Table 19), during 2008 mortgage interest rates rose in most EU countries, mainly as a result of the tightened monetary policies of the ECB and other Central Banks[15]. An increase in representative mortgage rates had already been observed in 2007 and this was a trend that continued until Q3 2008 (with the exception of Q1 2008). This increase in interest rates was due to expectations of further central bank rises stemming from growing inflationary concerns in the first half of 2008. All these factors led to a shift in borrowers' preferences towards fixed-rate mortgages. Despite these developments, real interest rates remained at absolute low levels across the EU and this contributed to soften the downturn in housing markets.

ECB monthly aggregate data for the euro area shows that in 2008 interest rates increased across all loan maturities. In 2007, however, increases in mortgage rates were higher than in 2008 for all maturities, and short term interest rates increased more than long term interest rates. This was also confirmed by 2008 figures. As in the previous year, the 2008 variable mortgage rates continued to increase more than fixed rates across all maturities. Most of the increase was recorded in the first three quarters of 2008 for all maturities of mortgage interest rates. From December 2007 to November 2008, mortgage interest rates for variable rate and three common types of fixed rate (initial fixed from 1 to 5 years, from 5 to 10, more than 10 years) increased by 31, 31, 15 and 10 bps respectively, reaching 5.63%, 5.34%, 5.22% and 5.28%. In December they went down to 5.09%, 5.06%, 5.10% and 5.13% and their decreases on December 2007 were by 23 bps for variable rates and 5 bps for fixed rate over 10 years,

[14] Representative mortgage rates are the most representative mortgage rates offered by lenders on loans granted during the period (average period rate).

[15] The ECB raised its benchmark interest rate to 4.25% in July 2008, and then lowered it with 3 cuts in a row, to 3.75% in October, to 3.25% in November and to 2.50% in December respectively. The Bank of England lowered its rate in February 2008 and then lowered it further with four cuts in a row during the year, bringing it down to 2.00% in December.

while fixed rates from 1 to 5 years and from 5 to 10 years increased by 3 bps.

During 2007, fixed rates across all maturities had decreased more than variable rates, and at the end of the same year the level of average variable rate in the euro area was much higher than that of average fixed rates. This trend continued throughout 2008 and, at the end of November 2008 – before the last cut in ECB`s central rate by 75 bps - the average variable rate in the Euro area (5.63%) was still above the three common types of fixed rates (5.34%, 5.22% and 5.28% respectively). This situation changed considerably in the time-span of a month, since – as a response to the above mentioned rate cut by the ECB on December the 10th – interest rates across all maturities dropped dramatically and also converged to levels ranging from 5.06% (initial fixed interest rate from 5 to 10 years) to 5.13% (fixed interest rate up to more than 10 years), thus returning to levels observed in July 2007.

Indeed, during 2008 the spreads between the average variable rate and the three common types of fixed rates in the Euro area considerably narrowed, since from December 2007 to November 2008 it went down to 2006 levels, i.e. to just 3, 1 and 4 bps respectively.

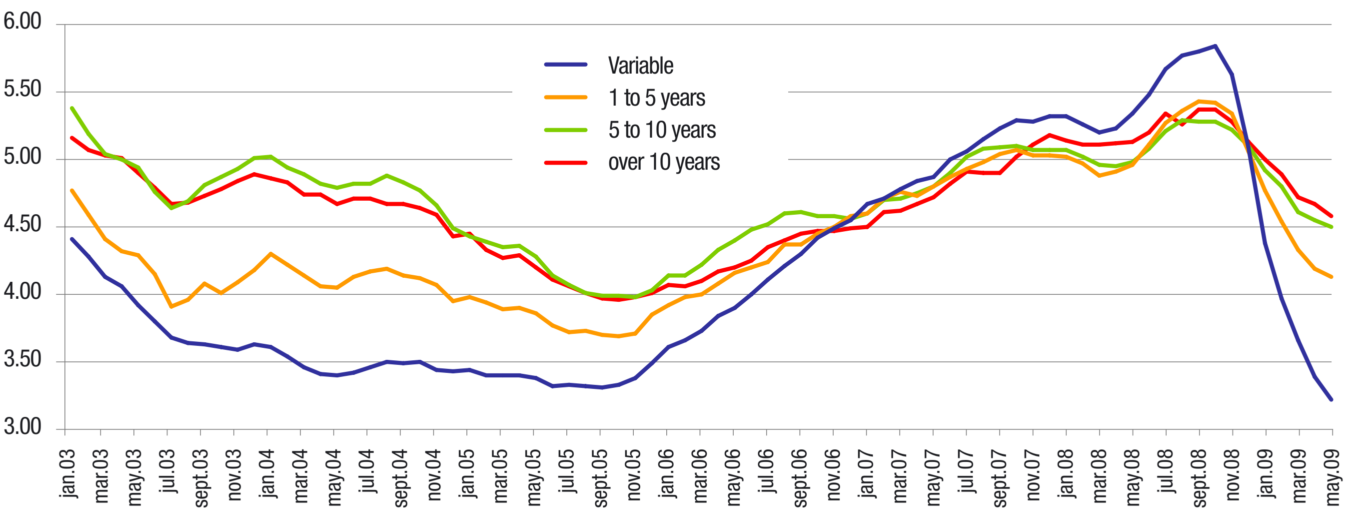
In some EU countries a shift from variable to fixed rates could be observed from the breakdown of new mortgage loans by type[16]. The above developments in mortgage interest rates resulted in a more pronounced borrowers' preference for longer-term mortgage rates and for fixed mortgage rates. Interestingly, these developments were not reflected in EMF quarterly data for some other countries[17]. For example, in Ireland, variable interest rates decreased by 67 bps from the 4th quarter 2007 to the 4th quarter 2008 and initial fixed period rates from 5 to 10 years by 33 bps, so that new mortgages issued in variable rates remained largely predominant (up to 90.6% of new loans issued in Q4 2008). In Spain, variable mortgage rates increased by 55 bps over the same period while fixed rate also increased, but slightly less, i.e. 39 bps. As a result, the share of new loans with fixed rate (and with initial fixed rate) went up from 8.7% to 9.1% but variable rates were still prevailing.

Initial fixed mortgage rates during 2008 decreased also in Germany (17 bps) and in Sweden (80 bps). Despite this decrease in fixed interest rates, in Germany the share of fixed rate mortgages remained substantially unchanged on the previous year. While in Sweden the proportion of mortgages with variable interest rate was considerably higher in Q4 2008 than in Q4 2007 (67.0% against 48.4%)

In Denmark, the share of new loans with a fixed rate dropped by almost 10 percentage points (from 38.6 to 27%). In Belgium, traditionally regarded as a `fixed rate country`, in 2007 it reached 85.1% of total new mortgages issued (from 81% in 2006) but it declined to 82.7% at the end of 2008.

As regards more recent short-term developments in mortgage interest rates in 2009, as reported in the EMF`s Quarterly Review focusing on data up to Q1 2009[18], the record cuts in central interest rates by the ECB in the last quarter of 2008 and also in the first quarter of 2009 (which led the ECB rate down to 1.50% in the euro area as of March 2009) led to substantial decreases in mortgage interest rates across several mortgage markets. Moreover, there is considerable room for further decreases in mortgage interest rates over the next quarters of 2009, as long the expansionary stance of the ECB remains in place to sustain the EU economy and the credit market. According to Q1 2009 data, many EU mortgage markets recorded significant decreases in mortgage interest rates both on a quarter-on-quarter and on a year-on-year basis. For instance, Spain, saw representative mortgage rates decrease by 167 bps on the previous quarter and by 96 bps on the previous year, and also Denmark (145 bps quarter-on-quarter, 139 bps year-on-year), Ireland (110 bps quarter-on-quarter, 177 bps year-on-year) Italy (240 bps quarter-on-quarter and 133 bps year-on-year) and Greece (109 bps quarter-on-quarter and 94 bps year-on-year).

CHART 7 ▶ Mortgage Interest Rates in the euro area, 2003-2009 (%)



Note: Annualised agreed rate (AAR) / Narrowly defined effective rate (NDER)
Source: European Central Bank

[16] See EMF Quarterly Review on Q4 2008 for details.

[17] For more details, see Quarterly Review issues of 2007.

[18] See EMF Quarterly Review on Q1 2009.

The Rental Sector in Housing Policy and Housing Finance

By Claude Taffin, Housing Finance Economist, The World Bank

1. Introduction

This paper emphasizes the role that rental housing should play in housing policy in current situations and, more particularly, as part of a stimulus plan for the economy. It examines the conditions which should be met so that this too often "forgotten sector" of housing policy could play a vibrant role. These conditions are the existence of a balanced framework for rights and duties of landlords and tenants, an attractive rate of return and appropriate lending. An additional condition, as far as social or affordable rental is concerned, is to find investors that accept long term commitments.

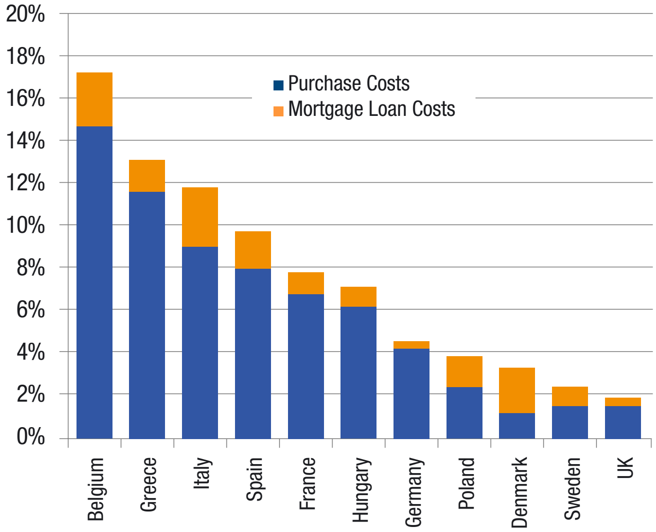
2. The permanent need for rental housing

Many governments encourage home-ownership, through supply or demand-side subsidies, guaranteed or subsidized loans, at a minimum for two sets of reasons:

- It requires a shorter term commitment; subsidies can be directly given to the end user, it more easily allows leverage of market resources and is less prone to ghetto formation;
- It coincides with a widespread aspiration of the households themselves who see ownership as a social promotion and a safety net; they also consider that they will make capital gains (this is usually true because of urban growth, but volatility is underestimated).

Therefore increasing the home-ownership rate is a frequent housing policy objective while increasing the tenants' proportion is seldom one.

Figure 1 ▶ Total Transaction Costs as a % of Total House Purchase Costs



Source: EMF (2006), Study on the Cost of Housing in Europe.

2.1 Low-income, young adults and mobile workers need rental housing

However, enabling the development of a healthy formal rental-housing sector is important for a number of reasons. First, the rental sector is a natural outlet for households that do not have sufficient income to buy a home, or have not saved enough to meet down-payment requirements for ownership. Young adults and the poorer fractions of the population fit into these categories. In countries where the private rental market is small or declining, the interim role played by the rental stock is missing, and one sees young adults living longer with their parents (Italy, Spain).

Second, vibrant rental markets are necessary for workers' mobility. Because of transaction costs, linked to purchase and mortgage loan, ownership entails higher fixed costs, which amortize on a longer period. These costs are highly variable between countries (figure 1). However, a controversial study that linked ownership and unemployment rates in Europe has been confirmed by US data ([19]). Ownership can thus provide negative incentives to relocate closer to jobs.

In contrast, mobility within the rental sector entails relatively low fixed costs, which can be seen as an advantage in societies going through rapid changes in the structure and localization of employment. This would characterize most transition countries ([20]). However, tenants' mobility may be hindered by rent regulations which create gaps between market prices and rents paid by non-mobile tenants; tenant's mobility tends to be low also in the social rental sector, partly for this reason and partly because of households characteristics (low income and large families that limit choices).

Third, a robust rental sector is needed to give households a larger choice for asset investment. In most countries, housing as an asset has the two drawbacks of being indivisible and relatively illiquid, which affects the way households can manage their portfolios. Among low-middle income households in particular, the main residence is usually too large a part of their wealth. Equity loans in general and equity release (or reverse mortgages) allow to "unlock the housing value" but such products are available in a limited number or countries and it is often a nascent market, with high costs and limited choice for the consumer.

Disconnecting housing property from the main residence by being tenant and investing in rental housing allows households to remain mobile. Unfortunately, taxation systems often make this choice irrelevant (in France for example). On the contrary, Germany has a majority of tenants because, in the post World War II years, huge tax incentives were granted to investors. These benefits have now disappeared but the rental stock is still here ([21]). In spite of this, there is no evidence that German households are more mobile than other Europeans.

As an investment, rental housing generates a source of income that complements other income sources. In some countries it can also be a substitute for insufficient or volatile pension systems, thus being a critical element of welfare improvement for the elderly. It must be acknowledged however that households with low investment capacity should generally privilege the purchase of the main residence, thus avoiding on both sides the higher risks linked to rental: tenure and rent increase on their own side, defaulting tenant on the other side. Only persons living in countries where older tenants enjoy higher protection or benefiting from special advantages (rented social housing and housing allowances – one may not be enough!) may consider remaining tenants all their life.

[19] Oswald, A. J. (1999), "The Housing Market and Europe's Unemployment: a Non-Technical Paper; Green, R.K. and Hendershott, P.H. (1999) "Home-Ownership and Unemployment in the US".

[20] The World Bank (2005), "Rental Choice and Housing Policy Realignment in Transition Countries: Post-Privatization Challenges in the Europe and Central Asia Region".

[21] TS. Kofner (2009), The Framework of the Private Rental Housing Sector in Germany.

2.2 Rental is the dominant tenure in larger cities

Rich countries do not necessarily have high home-ownership rates, as illustrated by the cases of Germany and Switzerland ([22]). If there is any correlation, it is a negative one, as maintaining a large, implying affordable, rental sector requires the financial involvement of governments. In the European Union, the average owner occupation rate is more than 70% and Germany is now the only country with a majority of tenants (See Statistical Table 4). In the countries with a large majority of owners however, the data are probably biased as rental develops informally to avoid taxation or tenant oriented legislation (Poland).

In many parts of the world, the tenants are concentrated in urban areas. Home-ownership rates are as low as 14% in Geneva, or 12% in Berlin. Situations are more diverse elsewhere but most of the time these rates vary a lot between the central districts and the suburbs: the overall home-ownership rate is 33% in New-York City but it is 22% in Manhattan, 46% in Queens and 68% in Staten Island, which is the US average ([23]).

Raising home-ownership rate is a posted policy objective in some countries (France) but lowering this rate can be now one too, although not always explicitly; this is at least the case in Spain.

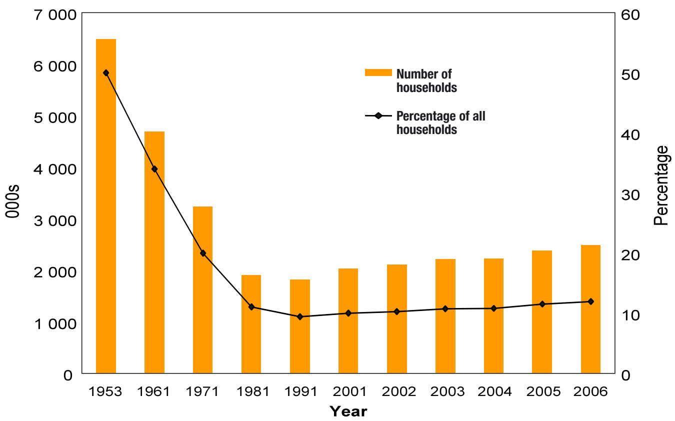
A result of this imbalance is that, in many countries, rental housing is an unprofitable and risky investment. No finance is therefore available for investors in rental housing and developers do not often embark on this activity. If they carry out rental projects, it is normally because they have been commissioned to do so by investors or public authorities. In this case, they act more like builders than developers.

2.3 The perverse effects of rent controls

The rental sector often has to overcome the consequences of past errors. Charles Boycott became famous for being ostracized but few people remember that it was because he mistreated tenants. Rachmanism, from Peter Rachman, is now a synonym for exploitation of tenants. This is not a British speciality as France also has its Mr Vautour, with the only difference being that the character was created after the name, not the other way round.

The nightmare is not always for tenants only: for owners it is called rent control. As a result, not only maintenance but also private investment may stop, sometimes for decades, up to a point where the size of the sector decreases. This happened, for example, in the United Kingdom after drastic rent controls were put in place in the aftermath of World War II (Figure 3) and justifies the statement that "in many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing" ([24]).

Figure 2 ▶ Privately renting households in England



Source: Peter Kemp, 2008.

Figure 3 ▶ provides an overview of EU practices.

	Newly rented dwelling		New Tenancy				Renewal			
	Free	**Other**	**Free**	**Reference**	**Index**	**Other**	**Free**	**Reference**	**Index**	**Other**
Austria	Yes (1)					Yes (3)				
Belgium	Yes		Yes						Yes	
Denmark	Yes					Yes (3)				Yes (3)
Finland	Yes		Yes				Yes			
France	Yes		Yes					Yes	Yes (4)	
Germany	Yes		Yes					Yes		
Greece	Yes		Yes				Yes			
Ireland	Yes		Yes				Yes			
Italy		Yes (2)				Yes (2)			Yes	
Netherlands	Yes (1)					Yes (3)			Yes	
Portugal	Yes									
United Kingdom	Yes			Yes			Yes (5)	Yes (5)		

Notes:
1) Except for subsidised dwellings
2) Administrative setting (Law equo canone - 1978)
3) Reasonable rent calculated
4) Paris and suburbs only
5) Optional

[22] 37.5 %, according to S. Bourassa, M. Hoesli and D. Scognamiglio (2009), "The Swiss Housing Market", Swiss Finance Institute, Research Paper Series nº 09-16.

[23] Furman Center for Real Estate and Urban Policy, New-York University (2009).

[24] Assar Lindbeck (1972), "The Political Economy of the New Left" (New York: Harper and Row).

Rental is usually "forgotten" by housing policies because governments are reluctant to tackle this issue: launching a new subsidy plan for home-buyers is easier than changing the balance between tenant and landlord rights and duties and is thought less costly than alleviating taxes on rented property. Moreover, all or part of the legal framework is often embedded in the Civil Code. Not only the Housing Department but also the Justice Department should thus be involved in any revision of the law.

3. Sine qua non to boost rental housing: Creating or restoring a balanced framework for rights of tenants and landlords

The main items to be included in this framework are the following:

- Definition and description of the housing unit (main residence / unfurnished / …);
- Duration & termination of the contract (limited fixed term / renewal / termination);
- Rent setting & rent increase (see below);
- Documents that should exist in a written form (contract/inventory/notice to pay, to quit);
- Procedures for solving conflicts (conciliation, mediation, local justice…);
- Stability and adaptability (stable law is needed but local adaptation is necessary).

Rent setting and rent increase are key issues. Distinction should be made between:

- New rental units (newly built or newly used as a rental unit): the rent tends to be freely negotiated:
- New tenancy (change of tenant); several cases are met: free rent, rent adjusted according to « references » or « reasonable rent »;
- Renewed lease (same tenant): indexation can be used in addition to the free and the reference-linked rent;
- During the lease: indexation or no increase.

4. How to ensure an attractive rate of return

Any investor will compare rental investment to other forms of real estate or financial investment by considering the three following criteria:

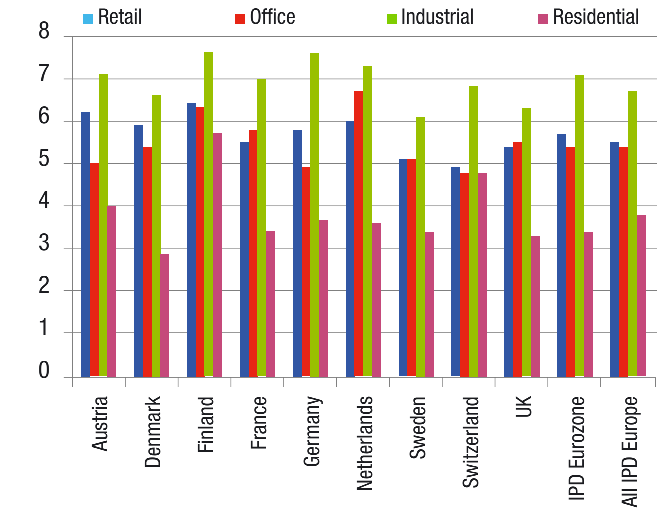
- Total return (rental income and capital gain),
- Risk(s),
- Liquidity.

He will unfortunately reach the conclusion that this comparison is not often favorable to rental housing. A long term-investor will focus on the rental income. Compared to other real estate investments (retail, office and industrial), gross residential rental income is usually lower. Moreover, the various costs (maintenance, management, taxes and fees) that lower this gross income are also higher for residential properties. As a result, the income return of residential property compares very unfavorably to other real estate properties (Figure 4).

Any investment in real estate faces a number of risks. The main uncertainty concerns rent collection. Potential difficulties (entailing costs and delays) in evicting a delinquent tenant or recovering the property vary from one country to another as they are influenced by the legal and regulatory framework that regulates relations between tenants and landlords. Changes in this framework, such as a new rent index, is also a bigger risk in the residential sector. Insurance products, public or private, exist that provide a partial coverage for the rental risks mentioned above. However, they are little used, thus costly.

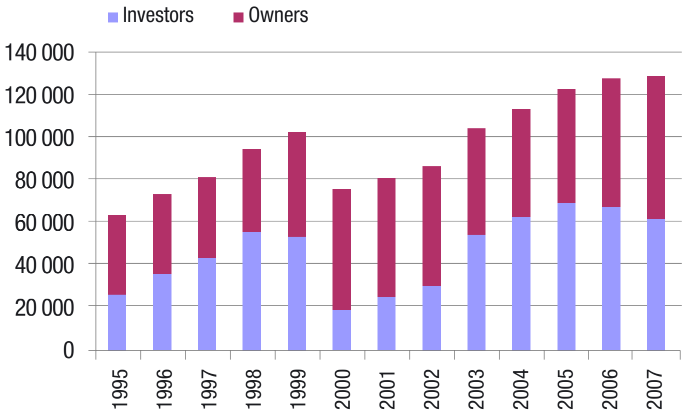
Governments willing to support rental investment may resort to tax incentives in order to increase the rental return. Because the private rental housing stock was steadily decreasing, several schemes have been introduced in France since 1984 to encourage individual investment in newly-built housing for the rental market. Their major requirement was that the property should remain rented for a minimum period of time (from six to nine years).

Figure 4 ▶ Income return by type of property (Year 2008)



Source: IPD (2009).

Figure 5 ▶ Share of investors' purchases in developers' sales in France (1995 – 2007)



Source: Association of Builders-Developers (FPC).

It is estimated that between 30,000 and 50,000 units were sold each year to investors under the first schemes. The most recent ones reached between 60,000 and 70,000 (Figure 5).

These schemes proved to be more efficient (in terms of number of units sold) as they were free of constraints such as rent ceilings or tenants' income limits. However, an important proportion of units were sold after the minimum rental period. Also, some of them were either secondary homes or units to be occupied by relatives; cases of cross investment (two households renting to one another instead of buying their own unit) may also have occurred. These schemes did succeed in supporting the building industry and increasing the housing stock. Their long-term impact on the rental sector is less clear. The quality of the buildings, their location and the size of the units also seem to be questionable.

In Spain, the subsidy scheme for home-buyers has been recently modified and, for the first time extended to rental investment. It has three regimes, depending on tenants' income:

- Special regime: less than 2.5 times the IPREM (17,472 Euros);
- General regime: between 2.5 and 4.5 times the IPREM (31,450 Euros);
- Concerted regime: between 4.5 and 6.5 times the IPREM (45,427 Euros).

The property must be rented during a minimum period of 10 or 25 years and the rent per year must not exceed 4.5% (25 years) or 5.5% (10 years) of the maximum reference price. The 10-year rental agreements can include a right-to-buy option at a maximum price of 1.7 times the maximum reference price and at least 30% of rents paid should be deducted from the price.

The investors may benefit from preferential loans. These "prestamos convenidos" - loans resulting from an agreement between the Ministry of Housing and the lenders – have a fixed or variable rate. In the latter case, the interest rate is equal to the 12-month Euribor plus a 65 basis point margin. Their minimum term is 10 or 25 years. The subsidies below are linked to the repayment of these loans:

Income Bracket	Maximum Reference Price	Yearly Subsidy (for each 10,000 Euros borrowed)	Rental Period
< 2.5 IPREM	1.5 MBE	350 Euros	10 / 25 Years
2.5 to 4.5 IPREM	1.6 MBE	250 Euros	10 / 25 Years
3.5 to 6.5 IPREM	1.8 MBE	100 Euros	10 / 25 Years

Notes: IPREM: Indicator Público de Renta de Efectos Múltiples (Index used to calculate social benefits).
MBE: Módulo Básico Estatal (Reference price in Euros per m^2).

Developers may get subsidies for the special (250/350 Euros for 10/25 years) and the general (250/350 Euros for 10/25 years) regimes.

5. Market lending for rental housing

Individual investors may not easily find credit for rental. In many countries, lenders will be reluctant to finance rental investments. In spite of the expected rent payment, they know that this type of lending is risky as, in case of difficulty, the investor will more easily relinquish a property he does not occupy than his own residence.

In the recent years, low interest rates and price increases helped lending for rental to develop. Rental investments have been a significant minority of sub-prime lending in the United States in cities like Miami. In France, lenders easily finance individuals investing in new rental housing because investors benefit from important tax subsidies (above) provided that the property is rented and a rent is really paid during six years minimum. It may be more difficult to finance a rental investment in an old building if its location or quality is questionable.

Lending for multifamily rental projects is very different from retail lending for ownership or rental. No standardized debt instruments or financing process exists and multiple funding sources are common. As a business line, it is closer to project finance, as it relies heavily on the examination of the cash flows generated by each particular project. As such, it is less subject to automated procedures of loan approvals and other refinements that have facilitated the development of mortgage lending.

In particular loans to finance social rental housing have specific features which may pose problems to market players. They are (very) long term, often more than 30 years, which makes it difficult to raise matching funds. They may also have high loan-to-value-ratios. Both factors increase the risk premium. On the other hand, a part of the rent is usually paid by the State through housing allowances which, on the contrary, reduces the risk to the lender. Moreover the risk is spread over a number of properties, unlike an individual investor. Hence the risk of such loans is often overestimated; more precisely, whereas the LGD (loss given default) is high, the PD (probability of default) is low.

6. The increased need for affordable rental in times of crisis

There is a permanent need for affordable rental housing and, due to the economic crisis, not only do a number of countries face a temporary need for supporting housing construction but also, the demand for affordable housing is on the rise. Supporting new home-buyers only could be considered for its faster impact on economy, as single family housing is easier to build and finance than multi-family. Unfortunately, it may be in vain in a period when purchasing power decreases, unemployment risk rises and underwriting criteria get tighter. Those who could nonetheless afford buying are incited to wait for house prices to plummet. Some governments may also be reluctant to favor low-income home-ownership, as it is often seen as the market segment where the US sub-prime lending developed ([25]).

Therefore rental housing should be if not prioritised, at least considered, but several obstacles must be overcome that include bad reputation and lack of ad-hoc finance. These obstacles have already been mentioned about rental housing in general. When social housing is concerned, specific difficulties appear.

6.1 The bad reputation of "social housing"

By "social" we mean "affordable", not "public" housing. Public investment and management has been common in socialist economies and West-European countries in the post World War II years. The poor outcome of public rental housing is well-known: ghetto phenomenon, culture of non-payment, governance issue, artificially low rents that stunt mobility, etc. They often hide its successful achievements (disappearance of slums, increased purchasing power, social mix, etc.).

Direct subsidies to low-income tenants, called housing allowances in Europe and vouchers in the USA, are more and more privileged, as they proved to be better targeted and more flexible. However subsidies to investors ("aid to brick and mortar") have not disappeared. In the USA for example, there has been no new investment in public social housing since 1965 but a new tax subsidy, the Low Income Housing Tax Credit (LIHTC), supports privately-financed and managed rental housing projects.

In the few countries which remain deeply involved in social rented housing (mainly in Central and Northern Europe) the private sector now plays a dominant role under various forms: ALMOs (Arms Length Management Organizations) in the UK, non or limited profit ad-hoc organizations (France, UK, NL) and, in some cases (Germany, Czech Republic), standard legal or natural persons. Local governments may be involved through Public- Private-Partnership (P.P.P.) and higher level governments only provide subsidies and guarantees.

6.2 Lack of ad-hoc finance

This is a key issue: how to make finance available to rental housing in times of credit crunch when it is even not available in other times?

The few countries which are still using non capital market-based finance have a big advantage. In the European Union, public banks (Netherlands, Poland) and housing funds (Finland, Austria) remain widespread but they only finance registered social housing providers. That is also the case in France where the often blamed system consisting in transforming short-term deposits on savings accounts into very long-term loans to social housing companies takes advantage of this stable and low cost instrument.

[25] In fact, many but far from all subprime borrowers were low-income first-time buyers.

6.3 Lack of investors

The specialist investors dedicated to social housing only exist in a few (developed) countries and it is unrealistic to create some from scratch in the short term in the countries where they do not or no more exist. Though the direct involvement of the Government is not either recommended, the intervention of municipalities could be considered: most of the new Polish social housing companies (TBS) are non-profit private companies owned or dominated by the municipalities.

Institutional investors, when they exist, are usually not prone to invest in housing at all because the couple return/risk compares disfavorably to most other assets, financial or real estate (due to high management costs inter alia). They are unlikely to invest in social housing unless they are granted important subsidies for limited commitments.

Besides registered social landlords, the main target is therefore the households themselves. They are likely to overreact to short-term incentives like tax subsidies (whereas institutional investors would make a rational use of discount rate) but should not be expected neither to house very low-income nor commit themselves for many years, as the French experience has shown.

Households can be direct investors or buy shares of investment trusts, such as the US Real Estate Investment trusts (REIT). In the EU, several countries have similar structures ([26]).

These vehicles do not easily find the right balance between the financial and the real estate market: while they try to cumulate benefits from both, they may on the contrary cumulate their drawbacks. In most cases, they invest in commercial real estate and there are only a few funds exclusively dedicated to residential investment. Some temporary tax benefits would surely boost this activity provided that it clearly appears to the potential investors that it is low risk.

7. Conclusion

Developing rental markets in general first requires improving the legal framework: it should be simple and clear, allow rent increases, accelerated procedure (arbitration committee) and property recovery by the landlord.

Next, an even playing field with other investments, real estate and financial products, should be found so that the return, the risk (and the liquidity) of the housing investment should be comparable. The necessary adjustments should be made through taxation and insurance products. These prerequisites should enable investors to have better access to market finance.

Affordable rental housing is always needed for low-income households and mobile workers. Only large well-functioning rental sectors are likely to provide such accommodation. As public housing has often proved to be inefficient, especially when central, not local governments were involved, private non-profit companies or P.P.P. (private-public partnerships) are now privileged.

In case of market failure and in times of crisis, encouraging investment in affordable rental housing will support both the building sector and the needy households. This should not be a substitute but a complement to the support to home-buyers, as can be illustrated by a comparison of the French and the US stimulus plans (Figure 6).

Figure 6 ▶ Main measures of stimulus plans to the housing sector in France and USA and their fiscal cost

France		USA	
Home-ownership			
0% loan program doubled in volume in 2009	600 M Euros	Tax credit for first-time home-buyers	Up to 8,000 USD
Rental			
100 000 additional social and « intermediate » rental units	600 M Euros	Housing and community development spending (affordable rental housing programs: LIHTC, etc.).	6.1 Bn USD
Speeding up of the program of urban renovation	200 M Euros	Public housing improvements	4 Bn USD
Other			
Fund for unfit housing and energy expenses	200 M Euros	Tax credit for making homes more energy efficient	Up to 1,500 USD per unit
Homeless prevention funding	160 M Euros	Homeless prevention funding	1,5 Bn USD
		Neighborhood Stabilization Program (To help states and cities deal with foreclosed properties).	2 Bn USD

Note: In order to compare the order of magnitude of these programs, one may use a ratio of 7 (in 2007, the GDP of USA in USD was 7.3 times that of France in Euros).

[26] See The World Bank (2009), "Housing Finance Policy in Emerging Markets", chapter 14.

Overcoming the crisis in European housing markets

By Michael Ball, Professor of Urban and Property Economics, University of Reading

1. Introduction

A little over two years ago, few would have believed that problems in what was at that time an obscure part of the US mortgage market would shortly bring Europe's then buoyant housing markets to their knees. Predictions of 'soft landings' instead were fashionable. But the subsequent period of financial turmoil hit Europe's housing markets at one of their most vulnerable points, mortgage availability. Recession and depressed economies then compounded the problems. Lenders and consumers feared impending large price falls, while lending and market transactions dried up. Those previously complaining of house price 'bubbles' and the need for sharp house price 'corrections' felt vindicated.

Prices have fallen: starting in 2007 in some countries, such as Ireland and the UK, and being joined by pretty much every other European country by the last quarter of 2008, including some countries that never experienced the previous boom. What has surprised some is that the downswing in most countries so far has been nothing like the scale of that in the USA, where the much quoted Case-Schiller index showed a fall of a third in house prices for the leading city composite index between June 2006 and April 2009. Outside of Iceland and some Central and Eastern European countries, the greatest falls have been in Ireland and the UK (23% and 21% from the peaks by summer 2009, according to the Permanent tsb/ESRI and Halifax indices). Although uncertainty continues, several of the continents' housing markets were experiencing price revivals by the summer of 2009, suggesting that the worst may be over. Consequently, European house price falls may generally turn out to be shallower, shorter, and even more regionally concentrated than in the USA. This is in marked contrast to experience over the previous 35 years, when European markets exhibited greater volatility.

This article will explore why most of Europe's housing markets seem to be escaping the scale of the collapse in the USA and dire warnings of essential corrections. However, the future is by no means all brightness and, so, it will consider some current risks and uncertainties as well.

2. Features of the boom

From the late 1990s through to 2007 house prices in most European countries rose strongly. Austria, Germany and Switzerland were exceptions and the precise details of timing and scale of the price increases varied across the countries experiencing price booms. Consequently, there was by no means a uniform pattern but all the same in many countries during the boom years prices rose by significantly more than in the USA as a whole. The pattern for the largest EU countries is shown in Figure 1. Central and Eastern Europe joined in the price boom somewhat later in the 2000s but then saw some of the most spectacular price rises.

Other features of the housing boom years varied across Europe as well. In some countries, they were associated with marked increases in the role of mortgage finance, when measured as a share of annual GDP (Figure 2). Particularly large rises occurred in Denmark, Ireland, the Netherlands, Spain and the UK; all of which increasingly tapped into world capital markets to fund mortgage growth. Denmark already had a long-established, highly regarded mortgage bond market but the other four relied heavily on mortgage-backed securities, which though new to Europe grew rapidly from 2000 onwards to peak at almost 600 billion Euros in 2008.

Figure 1 ▶ Annualised house price changes, Q1 1995 to Q4 2008

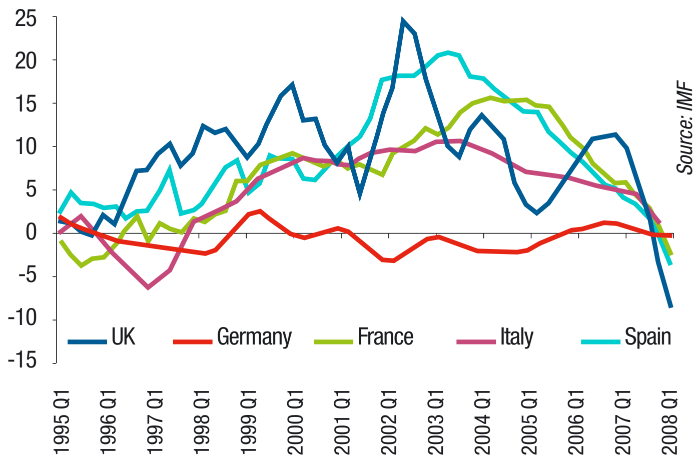


Figure 2 ▶ Mortgage debt to GDP ratios, 1990 and 2006

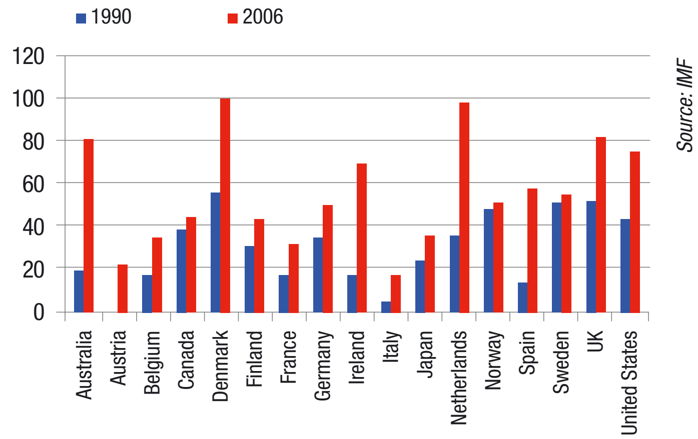
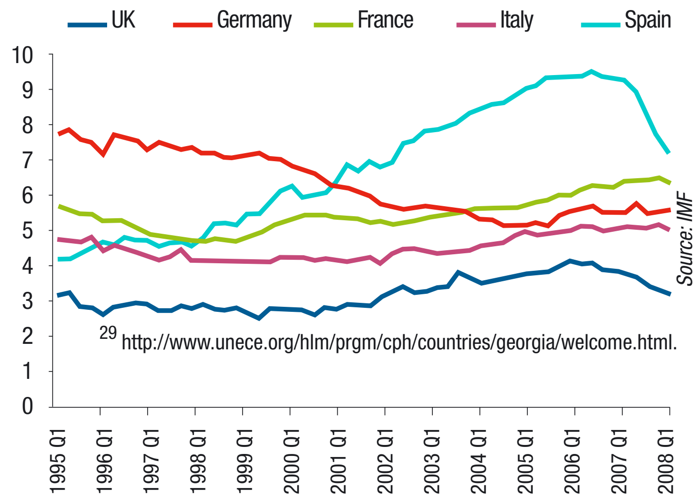


Figure 3 ▶ Residential investment as a % of GDP



However, many other countries saw only modest changes in mortgage to GDP ratios. Increases in mortgage borrowing obviously give buyers greater purchasing power, even so there was not a particularly close correlation between scales of house price changes and increases in mortgage debt ratios. For example, Belgium and France recorded significant house price growth prior to the Credit Crunch but little change in pre-existing low mortgage to GDP ratios.

Similar weak correlations were observed between house prices and supply-sides. Housebuilding increased in countries experiencing rising prices but again at different rates with limited correlation with changes in house prices (Figure 3). Ireland and Spain had by far the biggest housebuilding booms, with the Irish figure peaking at 13% of GDP. By contrast, some countries saw little or no rise in building at all, notably the Netherlands and the UK, but marked increases in prices. Once again, there was weak correlation between the extent of house price rises and levels of housebuilding.

Economic theory would suggest that both mortgage lending and housebuilding would influence housing market performance and they obviously did during the long European housing boom up to 2007. However, their importance cannot be simply read from relative changes in house prices across countries because they were only part of wider causal processes that affect housing markets. With respect to the last boom, some influences are global: such as the general easing in credit; declining inflation for much of the period, and real interest rates declines. But others were more country, or even city, specific: for example, relating to general economic performance; demographics; taxation; housing policy; and local supply-side issues.

So, the picture of the boom years is one of considerable variation across Europe. Yes, there was greater than usual co-ordination in cycles but still much variation caused by local factors. Unsurprisingly, the same is occurring in the downswing and will continue to do so in the revival. This is not simply due to housing market factors but broader institutional, demographic, economic and financial factors. What is more, governments and central banks have responded in different ways to the economic and financial crisis; utilising distinct policy instruments with varying effects on housing markets.

Unsurprisingly, it is inevitably hard to map and understand the details of cross-country housing market dynamics. This is especially the case as consistent and robust housing market models do not exist with which to compare the detailed dynamics of housing markets across European countries. The well-specified models that do exist tend to be country-specific and complex. They also contain a variety of variables and integrate stocks and flows: that is general housing demand and supply across the whole stock with current market behaviour.

In contrast to such approaches, a number of alternative views tend to dominate popular and media discussion of house price dynamics. They are worth considering briefly because each would predict severe house price falls across much of Europe: ones that in the main have not occurred to date.

One view emphasises expectations and beliefs as the most important market drivers. According to it, reckless lending and over-optimistic expectations led to bubbles in many European countries during the boom. Predictions are easy, because what goes up must come down in such a perspective. Yet, while it may be salutary to sound off against the foolishness of one's fellow human beings, it is unlikely to be a full explanation. Expectations may play roles in housing markets but, nevertheless, housing is a costly transaction, a long-term consumption good and prime household asset, so it is unlikely that purchases are made just on a hunch and a whim, with the market driven primarily by speculation.

Other analyses place faith in a believed stability of some fundamental ratios. These include house prices-to-incomes or housing outgoings as shares of disposable income. While some justification can be drawn from historical evidence on these ratios, they are by no means immutable constants. Cross-country, regional and city comparisons reveal wide cross-sectional variations in them. So, any stability over time has to be explained rather than taken as datum. Divergences from given values of such ratios consequently do not necessarily indicate the need for a subsequent re-adjustment.

A final approach which grew in popularity during the boom years is to specify simple dynamic models of housing markets with limited but common sets of demand-side only factors and, then, estimate the coefficients for individual countries using the available data. Outputs from such models include estimated 'equilibrium' house prices that can be used to calibrate whether actual prices are over- or under-valued at a point in time and likely to experience 'correction'. These approaches are sophisticated variants of the fixed ratios one and, like them, they neither explain why the estimated values are appropriate nor why they represent long-run equilibrium values. They differ from more complex housing market models by having incomplete theoretical underpinnings, missing variables, and potential data weaknesses. They may be useful by offering starting point for discussion over differences between housing markets but cannot, by themselves, adequately evaluate or forecast what is actually happening.

3. The dramatic shock of the Credit Crunch

European banks have been some of the worst hit by the credit crunch. They invested heavily in what are now known to be near worthless 'toxic' assets. They were active in now frozen asset-backed security and derivative markets. They faced sudden liquidity calls which could not always be met. As is well known, European governments were forced to make widespread capital injections into the financial systems and several lenders collapsed or had to be rescued. Looking at Europe as a whole, the UK and Ireland had the greatest number of problem institutions but few countries emerged unscathed.

Deleveraging led to widespread withdrawals from mortgage lending by erstwhile lenders and sharp curtailments by others. As housing mortgages are the largest category of consumer lending, they were bound to be badly affected by the credit crunch. Fears of falling house prices and rising defaults added to the problem. A downward spiral of declining lending, tightening loan-to-value ratios (LTVs), falling house prices, negative equity and mortgage default seemed inevitable. After the collapse of Lehman Bros, fears were high throughout the last quarter of 2008 and 2009 that the spiral in European housing markets would become self-reinforcing, as it had become in parts of the USA.

A further problem was associated with housebuilding. Developers were simultaneously hit by a sudden loss of demand and a drying of much needed bank credit with which to run their businesses. Unsurprisingly, housebuilding plummeted across Europe. This had a downward effect on general economies through cutting aggregate demand. The impacts were greatest in those countries which had the highest GDP shares of housing investment, Ireland and Spain, but they have been felt even in countries, like the UK, that had relatively low housing outputs; particularly as the pace of the output collapse was so rapid.

4. Bottoming out

There are several reasons in principle why European housing markets may adjust relatively quickly to sudden negative shocks. European countries have automatic stabilisers when their economies start to slide; ones that are relatively strong given the strength of welfare states, job protection and unemployment pay schemes. Some of them directly affect housing markets, for example, with income support schemes which dampen the scale of mortgage default. What is more, the penalties for failing to keep up with mortgage payments are far higher than in the USA, giving borrowers less of an incentive to default. Developers can also usually pursue through the courts with relative ease those wishing to walk away from deposits made on flats off-plan in better times.

A further key difference from the USA is that housing market problems there preceded the general financial crisis and recession; whereas they were more closely timed in Europe as housing market downturns occurred later. This meant that it was far easier for European policy makers to put in place timely actions with respect to their housing markets. Those could not stop the crashes but could contribute to limiting their strength and persistence.

The greatest stimulus to housing markets has come through monetary policy and associated sharp reductions in nominal interest rates. For example, average rates of interest charged on mortgages in the euro area fell from a peak of 5.71% in September 2008 to 3.95% in July 2009, according to the ECB. These have helped all borrowers on variable rate mortgages but also improved capital market rates have benefited new buyers and re-mortgagers using long-term fixed interest mortgages as well, and they have had the further inducement of being able to lock-in good rates for long periods to come. Attempts by the ECB and other central banks to stimulate lending by asset purchase schemes and 'quantitative easing' have further helped mortgage markets and, hence, housing demand, although the precise impact is hard to measure. In addition, governments have offered extra mortgage default rescue programmes and provided inducements to encourage new property purchases. General government stimulus programmes to revitalise economic growth even if not directly channelled through housing boost housing demand when they work.

Precisely how housing markets are currently faring depends on local and national circumstances, as in the boom years. Ireland faces severe problems of economic adjustment, perilous public finances and a glut of unsold homes and, so, is in particular difficulty. Second-home locations in Spain that earlier saw high levels of foreign demand now are enduring widespread abandoned developments and holiday home owners trapped with declining asset values. Elsewhere, in Spain, the full ramifications of the collapse of its long economic boom are only slowly being worked through. The Baltic States are experiencing grim times, which are also reflected in tumbling house prices. Throughout central and eastern Europe, the scale of past foreign currency mortgage borrowing is dampening prospects for housing markets. Yet, in some of the large, core European economies, the economic recession seems to be ending and with it housing market gloom. Housing markets are still operating at reduced levels but activity is picking up and some price buoyancy is being experienced.

5. An uncertain future

Housing markets may be recovering somewhat but the future remains uncertain. General economic recovery is fragile as are financial systems. Programmes to replace lost funding sources for mortgages and to build up confidence in European mortgage instruments in the world's capital markets are often at best in their infancy. Competition amongst financial institutions is much diminished and they will face far greater costs of doing business, which will weaken credit availability and raise interest rate spreads on a long-term basis. The regulatory future is still under debate and outcomes could have markedly adverse impacts on housing markets. What is clear is that the last boom was one of the longest and strongest on record, and unlikely to be repeated soon, so that all players in housing and mortgages will have to adjust to greater market volatility; even if it is unlikely to be of the scale of the past few years.

6. Missed opportunities?

By focusing on financial markets as the cause of current housing problems, policy makers are shying away from much needed reforms to housing markets themselves. Supplied-side constraints, wasteful tax breaks and distortionary vote-winning policies are rife throughout European housing markets. An often-cherished hope is that a crisis of the sort Europe has been experiencing might help to induce reason by exposing housing market fault lines but this is not happening now. Rather current events may lead to even greater housing and mortgage market distortions in the name of claimed impacts on economic recovery and social justice. For example, much-promoted policies aimed at tightening mortgage lending criteria or raising provider costs may inadvertently weaken competition and penalise vulnerable groups, such as first-time buyers, with insufficient calculation of the true cost and benefits of them.

The very shallowness of current house price declines in many countries may itself reinforce views that housing is always a safe investment: rising in value over time; one, moreover, that can be used as a political pawn without too many negative ramifications. More to the point, failure to address housing market distortions may make another bout of boom and bust much closer than it may otherwise have been. It may be unfortunate if current policy debate focuses unduly on the apparent benefits of house price increases as a sign of recovery or on promoting housing market stability. After all, one person's price rise is another's worsening affordability. House price rises at best have zero-sum outcomes and, at worst, show that far too little housing is being built.

There are a number of inherent reasons why housing markets are subject to fluctuations and cycles, the patterns of which are difficult to predict over the short-run. Taming the real estate cycle may be a wish-too-far and in any case one that imposes unreasonably high costs. Appropriately regulated, competitive markets remain the most likely hope of meeting consumer housing needs efficiently and fairly.

Austria

By Alessandro Sciamarelli, EMF

Macroeconomic overview

The Austrian economy slowed down in 2008; GDP increased in real terms by 1.8% (following on from 3.1% in 2007). Nevertheless, the economy of the country performed better than most EU15 economies. The strongest contribution to GDP growth came from final demand (which increased by 2.9%), while all other GDP components provided a weaker one, and the only negative contribution to GDP growth came from imports (-0.8%). Exports still increased on the previous year (1.2%), but slowed down visibly in comparison to 2007 (when it increased by 5.0%), another consequence of the downturn in the international macroeconomic environment.

The inflation rate, measured as the annual increase in the Harmonised Index of Consumer Prices, was 3.2%, i.e. one percentage point higher than in 2007.

The unemployment rate decreased from 4.4% in 2007 to 3.8% in 2008.

Housing and mortgage markets

According to OECD data, in 2008 housing activity in Austria continued its moderate recovery after having been quite flat since the late 1990s. Real residential investment increased on the previous year by 0.7%, in line with what was recorded in 2007 (0.8%). As far as housing supply indicators are concerned, according to the latest statistical figures available, in 2002 there were 42,281 building permits and 41,914 housing completions. Due to a change in the census method, no official figures on the housing stock and tenure have been provided since that time.

Contrary to the flat developments in housing investment which were observed in recent years (real residential investment grew by a mere 0.3% on average between 2005 and 2007), Austrian housing prices recorded rather buoyant increases in the same period (a 3.9% annual average increase between 2005 and 2007). However, this positive cycle came to an end in 2008 so that the housing market did not record any increases in average house prices that year. This change in the housing market cycle was not reflected yet in residential investment, which kept increasing in 2008 since developers were still driven by expectations of further rises in house prices.

Outstanding residential lending rose to 71,346 million Euros, which was a remarkable increase on 2007 (9.6%). This was the third highest annual growth rate in outstanding mortgage lending recorded among EU15 countries in 2008 (after Luxembourg and Greece).

In terms of percentage of GDP, outstanding residential lending also increased from 2007 to 2008 (from 23.9% to 25.3%).

Representative mortgage rates for house purchase rose from 4.79% in 2007 to 5.32% in 2008.

Funding

Covered bonds outstanding in Austria amounted to 8,395 million Euros, accounting for 11.8% of total outstanding residential lending (it was 6.3% in 2007).

	EU27, 2008	Austria, 2008	Austria, 2007
GDP growth	0.8%	1.8%	3.1%
Unemployment rate	7.0%	3.8%	4.4%
Inflation	3.7%	3.2%	2.2%
% owner occupied	66.8%	57.0%	57.0%
Residential Mortgage loans as % GDP	49.8%	25.3%	23.9%
Residential Mortgage loans per capita, € 000s	12.24	8.56	7.82
Total value of residential loans, € million	6,087,928	71,346	65,070
Annual % house price growth	0.3%	0.0%	3.7%
Typical mortgage rate (Euro area)	5.5%	5.3%	4.8%
Outstanding Covered Bonds as % of residential lending	21.2%	11.8%	6.3%

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

Notes:

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

Belgium

By Frans Meel, Union Professionnelle du Crédit

Macroeconomic overview

In 2008, economic growth was weaker than in 2007, but yearly GDP growth was still positive (1.1%). However, this figure reflects a steady deterioration during the year and an outright collapse of economic activity in the fourth quarter.

In Belgium, the macroeconomic slowdown caused the government to abandon public debt reduction targets. Public deficit rose from 0.3% of GDP (in 2007) to 1.1% of GDP, partly as a result of the slowdown in activity, so that Belgium's stability programme target was not achieved.

Belgian Debt to GDP ratio had been in continual decline since reaching a peak in 1993 (133%). In 2008 the trend was reversed when Debt to GDP increased once again from 84% in 2007 to almost 90% in 2008.

In 2008, the Belgian harmonised index of consumer prices recorded one of the steepest increases in recent years: an annual average of 4.5% (from 1.8% in 2007), compared to 3.6% in the EU15. The surge in energy prices explained the 1.1 percentage points difference in inflation rates between Belgium and the EU15.

A drop in domestic demand lowered both final consumption (0.8%, against a 2.0% increase recorded in the previous year) and investment in construction of new houses and renovation of existing houses (1.0%. against 1.3% in 2007).

Belgian households have substantial real estate assets which have risen considerably over the last decade: the share of real estate in their total net assets increased from 41% at the end of 1997 to 58% by mid 2008.

Housing and mortgage markets

In 2008, the cost of a dwelling amounted to an average value of 172,509 Euros. Having reached an average annual growth rate of almost 10% from 2004 to 2006, the average growth rate in average house prices gradually slowed in 2007 and 2008. In contrast to the abrupt correction seen in some EU countries, the deceleration in the growth in price increases was quite moderate: in the first half of 2008, average house prices continued to rise by more than 5.0% on a year-on-year basis, but at the end of 2008 growth slowed down to 3.0% on a year-on-year basis. Over the last quarter, growth in house prices turned out to be slightly negative.

Apartments were sold at an average cost of 174,176 Euros, which represented an increase of almost 4% over the previous year (after a 7% increase in 2007).

The price of a single family home rose on average to 315,512 Euros (a 2% increase on 2007). In 2007, there had been an 8% increase on 2006. Land prices rose by 4% in 2008, which is only half the increase recorded in 2007, for an average cost, in absolute terms, of 83,5 Euros per square metre.

As at end of 2008, residential mortgage lending outstanding amounted to approximately 137 billion Euros (against 126 billion Euros as at end of 2007). During 2008, the total amount of new mortgages granted (refinancing operations excluded) decreased by 2.2% compared to what was recorded in 2007 (following a 3.9% year-on-year decrease in 2007). The number of mortgage loans granted, however, slightly increased (0.4%) as compared to 2007 where a 5.5% drop was recorded over the previous year.

The level of new credit granted (refinancing operations excluded) during the first half of 2008 was slightly above the 2007 level (2.5%). It should be recalled, however, that the first two quarters of 2007 were very weak compared to the same quarters in 2006. The results of the second half of 2008 recorded a sharp decrease (-6.7%) compared to the second half of 2007, mainly due to much weaker activity in the 4th quarter.

In 2008, «loans for house purchases» represented 46.3% (-0.3% in comparison with 2007) of the number of contracts signed in 2008, which corresponded to 58.7% (1.2%) of the amounts granted. The market share of construction loans out of the total number of contracts stood at 13.4% (-1.0% on 2007) and at 15.9% as a proportion of loans granted (-0.8% on 2007). The market share of renovations, instead, grew considerably (3.7% on the previous year) and represented 23.8% of the number of contracts . The average amount of mortgage loans for renovation purposes dropped by nearly 3.0% and amounted to 34,500 Euros.

After having reached a historical peak of more than 85% in 2007, the market share of fixed rate mortgages (with an initial fixed period of more than 10 years) accounted for 83% in 2008. However, during the last quarter of 2008 the market share of fixed-rate mortgage loans dropped by 10%. In contrast, the market share of variable rate mortgages (with an initial fixed period of less than 3 year) doubled compared to 2007 (2.5% instead of 1.2%). As far as preliminary data for the first quarter of 2009 would suggest, this trend was set to continue.

Developments in mortgage markets will also largely depend on the evolution of the economic situation in the coming months and on the trend in house prices which is expected to stabilise.

	EU27, 2008	Belgium, 2008	Belgium, 2007
GDP growth	0.8%	1.1%	2.8%
Unemployment rate	7.0%	7.0%	7.5%
Inflation	3.7%	4.5%	1.8%
% owner occupied	66.8%	78.0%	78.0%
Residential Mortgage loans as % GDP	49.8%	39.8%	36.8%
Residential Mortgage loans per capita, € 000s	12.24	12.86	11.53
Total value of residential loans, € million	6,087,928	137,126	126,383
Annual % house price growth	0.3%	0.7%	8.1%
Typical mortgage rate (Euro area)	5.5%	5.0%	4.9%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Sources: EMF, ECB, Eurostat, National Bank of Belgium

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate weighted average derived from EMF calculations based on latest available data. Belgium=2007*

Bulgaria

By Rodolfo Labadie, EMF

Macroeconomic overview

Bulgarian real GDP continued to increase at a robust pace in 2008, growing by 6.0% on an annual basis and following the trend experienced in the country over the last five years, which saw real GDP growing by more than 6.0% on annual average. Private consumption and investments remained the main drivers of Bulgarian economic growth. In 2008, real GDP growth reached 7.0% in the first half of the year but started to slow down by the third quarter of 2008, largely as a consequence of the effects of the financial crisis on the Bulgarian real economy. Inflationary pressures grew considerably in the first half of 2008, with the consumer price index averaging a 12.0% increase on an annual basis compared to a 7.6% increase in 2007. Indirect effects of food and fuel prices increases on services' prices as well as the high growth-rate in real wages (7.4%) were the main factors behind the record level of inflation in 2008[27]. Unemployment continued to decline from 6.9% in 2007 to 5.6% in 2008.

The current account deficit reached a record high of 25.7% of GDP in 2008, increasing by 1.5 billion Euros on the previous year. This was partially balanced by a continuous high inflow of foreign direct investment into the country, which covered 73.7% of the current account deficit[28]. Balance of payments data showed that local businesses increasingly resorted to external finance, especially over the last two quarters of 2008. Thanks to conservative budgetary policies, the gross amount of public debt remained broadly unchanged in 2008. Fiscal surplus amounted to 3% of GDP, with total revenues rising by 13.5% on an annual basis.

Despite external monetary pressures, political commitment to the currency board arrangement which was established in 1997, has remained strong. The global financial crisis impacted the national financial system most clearly in the second half of the year, with lending significantly slowing down in the last two quarters of 2008. Over the course of the year, the Bulgarian National Bank steadily increased its base interest rate. By the end of 2008, the benchmark interest rate was 5.77%, up by 1.19% over the previous twelve-month period.

Housing and mortgage markets

The housing market in Bulgaria remained active in 2008 with outstanding mortgage volume increasing by 38.1%. This growth was fuelled in part by a pent up demand for housing and low interest rates. One result of the high demand for housing and mortgages was a sharp increase in the price of housing; nominal house prices increased by 24.9% during the year; this was the second highest annual growth rate in outstanding mortgage debt recorded in 2008 among EU27 countries. Growth in house prices remained at very high levels, keeping in line with the record increase observed in the previous four years. Furthermore, this was the highest increase in house prices recorded in 2008 among EU27 countries. Housing completions also recorded a significant increase in 2008, growing by 10.9% on an annual basis and reaching a record level of 20,294 units completed.

While fairly vibrant, the market showed signs of slowing in 2008. Building permits decreased by 10.8% on an annual basis, reaching a total number of 16,249. In Q4 2008 house prices started to decrease falling by 4.1% on Q3 2008[29]. While mortgage lending continued to increase thoughout 2008, with outstanding residential lending reaching 3,960 million Euros, growth in outstanding residential lending was lower than the two previous years when it grew by 73.5% in 2006 and 64.4% in 2007.

In 2008, the residential mortgage debt to GDP ratio increased by 17.1%, with the mortgage market accounting for 11.6% of GDP. However, this is a relatively small amount when compared to other EU27 countries. Mortgage funding is still largely based on deposits. Although Bulgaria adopted a legislative framework for covered bonds in 1999, outstanding levels of covered bonds backed by mortgages are still small when compared to other EU27 countries.

	EU27, 2008	Bulgaria, 2008	Bulgaria, 2007
GDP growth	0.8%	6.0%	6.2%
Unemployment rate	7.0%	5.6%	6.9%
Inflation	3.7%	12.0%	7.6%
% owner occupied	66.8%	96.5%	96.5%
Residential Mortgage loans as % GDP	49.8%	11.6%	9.9%
Residential Mortgage loans per capita, € 000s	12.24	0.52	0.37
Total value of residential loans, € million	6,087,928	3,960	2,868
Annual % house price growth	0.3%	24.9%	23.2%
Typical mortgage rate (Euro area)	5.5%	10.4%	10.4%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Sources: ECB, Eurostat, Bulgarian National Bank, Bulgarian Statistical Institute

Notes:

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

27 Bulgarian National Bank, *Annual Report 2008*.

28 Bulgarian National Bank, *Annual Report 2008*.

29 Bulgarian National Statistical Institute.

Cyprus

By Alessandro Sciamarelli, EMF

Macroeconomic overview

The Cypriot economy in 2008 continued to grow above the EU27 average. Real GDP increased by 3.7% compared to 0.8% for the EU27. The economy has, however, cooled with growth being somewhat lower than the 4.4% that was achieved in 2007. The deterioration of the international economic environment and the fall in external demand severely impacted the current account balance contributing to a record deficit of 18.2% of GDP. The strongest contribution to economic growth came from domestic demand (9.0%) of which investment in equipment grew 21.7%; recording its highest annual growth rate since 1993. Government expenditure also contributed a sizable 8.7% to GDP growth, and recorded its highest annual increase since 2001. Despite this marked rise in public expenditure public finances still recorded a surplus of 0.9% of GDP, though significantly decreased from the 3.4% surplus in 2007.

Inflation doubled over the year-end 2007 level moving from 2.2% to 4.4%; this put Cyprus above the 2008 EU27 average of 3.7%. The increase in inflation was in part caused by record high commodity prices in the first half of the year and in part to an increase in final demand. The unemployment rate increased to 3.8% from the levels recorded in 2007.

Housing and mortgage markets

During 2008 the housing market began cooling-off. Declines in housing demand and in related residential construction activity were reported though there was no evidence of a fall in house prices.

In 2008, 8,896 building permits were issued which represented a fall of 6.6% from the 2007 level. Private investment in construction increased by 4.7% on the previous year, but this was a clear slowdown compared to the record 13.1% increase in 2007. The residential property price index, as measured by the Central Bank of Cyprus, increased by 10.0% according to provisional data; this is a marked slowdown from 2007 which saw a 15.0% increase in 2007.

While lower than previous years, the mortgage market remained vibrant with outstanding residential lending increasing by 21.6% on 2007; the increase in outstanding mortgages in 2007 and 2006 was 28.2% and 31.6% respectively. For the first time the ratio of mortgage debt outstanding to GDP surpassed 50% (50.2%). Residential mortgage lending amounted to 8,501 million Euros. Interest rates for residential mortgages increased from 5.90% in 2007 to 5.98% in 2008.

	EU27, 2008	Cyprus, 2008	Cyprus, 2007
GDP growth	0.8%	3.7%	4.4%
Unemployment rate	7.0%	3.8%	4.0%
Inflation	3.7%	4.4%	2.2%
% owner occupied	66.8%	68.0%	68.0%
Residential Mortgage loans as % GDP	49.8%	50.2%	44.7%
Residential Mortgage loans per capita, € 000s	12.24	10.77	8.87
Total value of residential loans, € million	6,087,928	8,501	6,989
Annual % house price growth	0.3%	10.0%	15.0%
Typical mortgage rate (Euro area)	5.5%	6.0%	5.9%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Sources: ECB, Eurostat, Central Bank of Cyprus, Statistical Service of Cyprus

Notes:

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

Czech Republic

By Alessandro Sciamarelli, EMF and Jindřich Thon, Hypoteční banka

Macroeconomic overview

In 2008, the Czech economy experienced a slowdown in its annual growth rate (3.2%), which almost halved in comparison with 2007 (6.0%), but remained by far above the EU27 average (0.8%). The second half of the year saw a major slowdown which was the result of the initial phase of the global financial crisis. Gross fixed capital formation in equipment provided the strongest contribution to GDP growth (10.5%). National GDP data reflected the general deterioration of the international macroeconomic environment, which resulted in a pronounced slowdown in exports (6.9% in 2008, after much more buoyant growth rates in the previous years), mainly to Germany, while the year-on-year increase in households`private consumption (2.9%) was also weaker than in 2007 (5.3%). These developments led to a wider current account deficit in 2008 (3.1% of GDP) than in 2007 (1.5% of GDP). Government budget balance as a percentage of GDP was also slightly more negative (1.5%) than in 2007 (0.6%). The slowdown in the economy did not affect labour market data, which proved to be still very positive, with the unemployment rate decreasing from 5.3% in 2007 to 4.4% in 2008, a historical low since 1998.

Inflation surged and reached 6.3% on yearly average, as a response to strong inflationary pressures over the first half of 2008, which were forced by changes in the VAT taking effect as of 1st January 2008. Consequently, on the monetary policy side, the repo rate was raised by the Czech National Bank from 3.25% to 3.50% in February 2008, then it was lowered down to 2.75% in November and to 2.25% in December as a response to the financial crisis. Despite this cut, the costs of financing mortgages were no longer responding to developments in the CNB's rate. This was the result of the liquidity crisis in the second half of 2008, which sparked a confidence crisis across the entire banking sector. Interbank markets were frozen for many weeks and insufficient liquidity obliged several large mortgage market players to re-examine their credit activities.

Housing and mortgage markets

Residential construction in the Czech Republic was flat in 2008, coming at the end of a long positive housing cycle of which the year 2007 had represented a peak. Permits for residential buildings were stabilised (-0.2% on 2007), and housing starts decreased by a mere 0.6% on the previous year but they remained at very high levels. A heavier year-on-year fall was recorded in housing completions (by 7.8%), but when put in its historical context, this data reveals that housing activity was still buoyant in 2008. As far as the housing demand side is concerned, no average national data on house prices is available.

At the end of 2008 there were a total of 17 banking institutions operating in the Czech mortgage market. The four largest institutions represented 89% of the market. Volumes of gross residential lending dropped by 18% (in CZK) in 2008 compared with 2007 volumes, but despite this, 2008 was the second best year in terms of the volume of mortgages provided. Outstanding residential mortgage lending recorded another favourable performance in 2008 and increased by 27.9% on 2007, reaching 16,014 million Euros, which was equal to 10.8% of Czech GDP, so that in 2008 the ratio of outstanding mortgage lending to GDP was above 10.0% for the first time on record. The year-on-year growth rate in outstanding mortgage lending was much lower than that recorded in 2007 (55.4%), but largely outpaced annual growth rates recorded in all EU15 mature mortgage markets.

Funding

The main funding source for residential mortgages in 2008 was still mortgage covered bonds. The importance of mortgage covered bonds slowly declined though, representing 56.0% of outstanding mortgage lending from 62.0% in 2007. Revenue interest from mortgage covered bonds had been income tax exempt until income tax amendments introduced in 2008. Revenue interest on mortgage covered bonds issued after 1 January 2008 is subject to withholding tax. This amendment increases the costs of mortgage covered bonds issues.

	EU27, 2008	Czech Republic, 2008	Czech Republic, 2007
GDP growth	0.8%	3.2%	6.0%
Unemployment rate	7.0%	4.4%	5.3%
Inflation	3.7%	6.3%	3.0%
% owner occupied	66.8%	58.7%	58.7%
Residential Mortgage loans as % GDP	49.8%	10.8%	9.8%
Residential Mortgage loans per capita, € 000s	12.24	1.54	1.21
Total value of residential loans, € million	6,087,928	16,014	12,521
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	5.7%	5.3%
Outstanding Covered Bonds as % of residential lending	21.2%	56.0%	62.0%

Sources: EMF, Eurostat, ECB, Czech National Bank, Czech Statistical Office

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Denmark=2007*

Denmark

By Kaare Christensen, Association of Danish Mortgage Banks

Macroeconomic overview

Danish real GDP contracted by 1.1% from 2007 to 2008, marking the toughest period in the Danish economy since the oil crises in the 1970s. The abrupt tumble came after several years of expansion which boosted asset values and brought production capacity to its limit. Denmark is a small open economy and economic growth in 2008 has been highly influenced by the unfolding meltdown in global credit markets, which spilled into the real economy. Parts of the real economy, however, have shown some resilience to the crisis in credit and asset markets. The Danish labour market remained strong. The number of unemployed as a share of the labour force decreased by 0.5% on average in 2008 (3.3% against 3.8% in 2007).

Given that the Danish currency is pegged to the Euro (Denmark participates in the ERM 2), the Danish National Bank's interest rate and hence the Danish money market rates fluctuate with euro area rates. The Danish Krone came under pressure in the fall of 2008 and the spread to ECB rates widened. Despite several years of increased pressure on production capacity, consolidated Danish consumer prices have only risen moderately in past years. In 2008, the Danish final consumption deflator rose somewhat faster by a rate of 3.1% over the year, while the Harmonised Index of Consumer Prices, HICP rose by 3.6%, thereby accelerating in comparison with the 2.3% rate recorded in 2007.

Housing and mortgage markets

Danish home owners were not spared the housing shocks of 2008. Average prices on single family homes decreased by 5.1% on the previous year. Falling house prices have yet to become a problem at the aggregate level, but first-time buyers that have acquired a home since early 2007 are in danger of technical insolvency. Danish mortgage institutions are bound by law to Loan-to-Value ratios not exceeding 80%. First time buyers however rarely bring a down payment exceeding 10%, financing the remainder through banks or in the unregulated secondary mortgage market.

Home owners, in the meanwhile, had to deal with more problems on the housing market side. During 2008, the number of transactions dropped rapidly, leaving some home owners stuck with a new house and an old house that they could not sell. The fourth quarter saw the lowest number of transactions for the past several years. The gridlock in the housing market has been somewhat self reinforcing. Potential buyers have been reluctant to close a deal before having secured the sale of their existing home. Hence, economists have increasingly looked toward first time buyers for the tie breaker. Looking at the Copenhagen market, the housing costs as a share of first time buyers' disposable income had climbed to a staggering 68.0% by the summer of 2006. By the end of 2008 this ratio had come down to 58.0%. The fall could partly be explained by the falling house prices, and partly by decreasing interest rates and energy prices.

While the owner occupied ratio in Denmark remains relatively constant at approximately 54.0%, the receding demand on the housing market led to an increasing number of homes put up for sale in 2008. The negative effects have spilled over into the construction industry. The number of housing starts were down by 27.0%, housing completions were down by 30.0% and building permits were down by 25.0%. compared with 2007. On top of dealing with a nearly frozen housing market, home owners refinancing initial fixed mortgages in December 2008 had to accept a premium due to the currency pressure and international investors partly withdrawing from the Danish market. It could be argued that Danish home owners had to pick up part of the tab for Denmark opting to remain outside the Euro.

Despite the pressure on the national currency, Danish mortgage banks have kept their access to funding throughout the year. The ready access to financing has held a hand under the housing market and home owners have enjoyed flexibility to manage mortgage debt according to their personal appetite for risk. Gross residential lending as well as net residential lending decreased on the previous year by 14.7% and 27.2% respectively. At year - end 2008 outstanding residential loans had reached 222 billion Euros. The outstanding residentials loans reached 95.3% of GDP, 3 percentage points above the level recorded in 2007.

Mortgage banks operate within a highly regulated framework. Mortgage banks can go up to 80% LTV on residential loans. While the evaluation of the asset is also highly regulated, mortgage banks also assess the potential debtor's creditworthiness. In case of default, the property will likely be liquidated at a forced sale, and the mortgage bank will claim against the debtor unless a forced sale can cover the outstanding mortgage debt.

By the fourth quarter of 2008, mortgages in arrears rose to 0.4% of expected payments. This represented a modest increase in arrears, of 0.4% on the previous 12 months. Coming from a historically low level in 2007, the arrears ratio remains low once put into a longer historical context.

The same can be observed for the number of repossessed homes, which remained at a low level. During 2008, 275 houses were repossessed by Danish mortgage banks, which was an increase of 226 houses compared with 2007. Again, 2007 marked a record low level for repossesions, and in this context, the rise in 2008 should not be considered alarming.

Funding

Danish mortgage banks have secured an uninterrupted flow of capital to Danish home owners in 2008. In the fall of 2008, international investors reduced their holdings in Danish mortgage bonds. International investors' share of Danish mortgage bonds dropped in December as international investors were reluctant to participate in the refinancing auctions. In 2008 however, international investors withdrew to larger and presumably safer currency areas like the Euro area or the US. By the end of 2008 international investors held 8.6% of Danish mortgage bonds, down from 11.4% in 2007.

	EU27, 2008	Denmark, 2008	Denmark, 2007
GDP growth	0.8%	-1.1%	1.6%
Unemployment rate	7.0%	3.3%	3.8%
Inflation	3.7%	3.6%	2.3%
% owner occupied	66.8%	54.0%	54.0%
Residential Mortgage loans as % GDP	49.8%	95.3%	92.8%
Residential Mortgage loans per capita, € 000s	12.24	40.57	38.71
Total value of residential loans, € million	6,087,928	222,105	211,664
Annual % house price growth	0.3%	-5.1%	4.3%
Typical mortgage rate (Euro area)	5.5%	6.6%	5.9%
Outstanding Covered Bonds as % of residential lending	21.2%	100.0%	100.0%

Sources: EMF, EUROSTAT, ECB, Denmark Statistics

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate weighted average derived from EMF calculations based on latest available data. Denmark=2008*

Estonia

By Rodolfo Labadie, EMF

Macroeconomic overview

In 2008 the Estonian economy was severely affected by the global financial crisis. After almost a decade of buoyant economic growth, Estonian real GDP fell by 3.6% on an annual basis, compared to a 6.3% growth recorded in 2007. The slowdown in real GDP experienced in the first half of 2008 (-1.1% in Q2 2008) gained substantial pace during the following months, reaching a contraction of 9.4% in Q4 2008. GDP decreased in most fields of activity, with only government consumption and some sectors registering positive growth compared to 2007. Domestic demand shrank by 8.4% on an annual basis while private investment fell by almost 5.0%. As a result of external price shocks, consumer prices grew faster than expected, especially in the first half of 2008, reaching 10.6% for 2008 on average. The unemployment rate rose to 5.5% in 2008 compared to 4.7% the previous year, though this was still a relatively low level compared to the EU27 average. Since economic contraction in 2008 was faster than expected, the general government expenditure exceeded the revenue for the first time in six years[30]. In 2008, the government budget deficit constituted 4.8% of GDP.

The tightening of monetary policy observed in most EU countries was also experienced by Estonia, especially during the first half of 2008. The interbank lending rate for the national currency loans - the TALIBOR - further increased in 2008. The TALIBOR 3 months stood at 7.87% as of end of the year, compared to 7.3% at the end of 2007 and 3.85% at the end of 2006.

Housing and mortgage markets

In 2008, activity in the housing market sharply decreased. After six years of steady growth, house prices plummeted by 28.4% in 2008 on an annual basis. In the last six years, the house-price boom in Estonia was among the most sustained in the EU countries, where growth in house prices reached peaks of more than 40% increases on an annual basis in both 2004 and 2005. Following the slowdown started in 2007, building permits decreased by 38.7% on an annual basis for a total number of 5,468 issuances. During the boom years, the number of building permits issued surpassed 9,000 in 2004 and 2005, reaching a peak of 12,863 in 2006. In 2008, housing completions fell by 25.1% on an annual basis while the number of transactions fell by 32.3% compared to 2007. The number of total dwellings increased by 0.8% on an annual basis while the owner occupation rate remained constant at 96%, one of the highest levels among EU27 countries.

Over the last decade, Estonia has experienced one of the fastest levels of growth in mortgage lending among EU27 countries. Following the slowdown started in 2007, mortgage lending further tightened in 2008. Outstanding residential lending increased by only 10.5% in 2008, compared to a 31.5% growth-rate in 2007 and 63.4% growth-rate in 2006 on an annual basis. The total amount of outstanding residential loans reached 6,216 million Euros for 2008. Net residential lending fell by 56.7% on an annual basis while gross lending decreased by 32.9%. The ratio between residential mortgage debt and GDP further increased in 2008, amounting to 39.2% of GDP. Estonia holds one of the highest ratios of residential mortgage lending to GDP among new EU Member States. For a comparison, in the other Baltic States residential mortgage debt represents 30.9% of GDP in Latvia and 17.3% of GDP in Lithuania.

Reflecting the increases recorded in the interbank rates, especially in the first three quarters of 2008, annual interest rates on loans for home purchase denominated in Euros, which represent the majority of housing loans, were at 5.70% on average, compared to 5.48% in 2007. However, mortgage interest rates for loans denominated in EEK were at 7.05% on average, a steep increase from an average of 5.58% in 2007.

Funding

Deposits are still the main funding source and a legal framework for covered bonds has yet to be implemented within the country.

	EU27, 2008	Estonia, 2008	Estonia, 2007
GDP growth	0.8%	-3.6%	6.3%
Unemployment rate	7.0%	5.5%	4.7%
Inflation	3.7%	10.6%	6.7%
% owner occupied	66.8%	96.0%	96.0%
Residential Mortgage loans as % GDP	49.8%	39.2%	36.3%
Residential Mortgage loans per capita, € 000s	12.24	4.64	4.19
Total value of residential loans, € million	6,087,928	6,216	5,625
Annual % house price growth	0.3%	-28.4%	7.2%
Typical mortgage rate (Euro area)	5.5%	5.7%	5.5%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Sources: ECB, Eurostat, Bank of Estonia, Central Statistical Bureau of Estonia

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Estonia = 2008.*

[30] The Bank of Estonia, Annual Report.

Finland

By Ari Laine, Housing Fund of Finland

Macroeconomic overview

The long period of sustained economic growth in the global economy ceased in the third quarter of 2008 and the Finnish economy started shrinking towards the end of the year. The decline in the economy further accelerated in the first quarter of this year, and no significant improvement is expected in the course of 2009. Industrial output has plummeted, and nearly all industrialized countries slipped into recession in early 2009.

Despite all hopes for a "soft landing", the financial markets veered into a crisis after September 2008. Economic forecasts at the beginning of 2008 still predicted a 5.0 to 6.0% real GDP growth, but actual economic growth in 2008 was 0.9%. Declining foreign trade led Finland's industrial production into a sharp fall. GDP will decrease more in 2009 than previously expected, by an estimated 5.0%. Next year production is projected to drop by 1.5%.

The unemployment rate declined for a tenth consecutive year from the high levels seen in the early 1990s recession. In 2008, the unemployment rate was 6.4%. However, in 2009, the number of unemployed is expected to increase by an average of 70,000 people and the unemployment rate to rise to 9.0%. The employment rate will continue to decrease.

The central government budget balance will slide into a deficit of 6 billion Euros this year, and government debt will grow even more. The government budget will continue to record large deficits for a number of years to come.

	EU27, 2008	Finland, 2008	Finland, 2007
GDP growth	0.8%	0.9%	4.2%
Unemployment rate	7.0%	6.4%	6.9%
Inflation	3.7%	3.9%	1.6%
% owner occupied	66.8%	59.0%	58.0%
Residential Mortgage loans as % GDP	49.8%	47.5%	45.7%
Residential Mortgage loans per capita, € 000s	12.24	16.67	11.67
Total value of residential loans, € million	6,087,928	88,367	82,058
Annual % house price growth	0.3%	1.2%	6.0%
Typical mortgage rate (Euro area)	5.5%	5.0%	4.7%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Sources: EMF, EUROSTAT, ECB, Statistics Finland

Housing and mortgage markets

The share of owner occupied dwellings in the housing stock remained at around 59.0% in 2008. At the beginning of 2008, housing starts were shown to have risen to the same level as recorded in the previous year (30,478 dwellings). However, the financial crisis widely affected developments in housing activity so that housing starts in 2008 only numbered 24,500 units.

The number of completions of new dwellings stood at almost 30,000 units. Building permits fell to 26,300 units. According to forecasts, housing activity is expected to decline further in 2009 with housing starts reaching 15,000 units, of which nearly 10,000 will be state-subsidised housing.

The price of second-hand dwellings decreased for the first time by 1.2%, due to the financial crisis. The housing market stabilised after the decrease in interest rates in the first quarter of 2009. The benefits of falling interest rates were, however, partly offset by the very rapid rise in loan margins in households` mortgage loans, and especially in housing loans to building companies. Banks have been very careful in the granting of new loans to building companies, fearing possible losses due to the current market situation.

So far, the number of mortgages in arrears and the amount of losses in households` housing loans have both been minimal when compared to the developments observed during the Finnish recession in the early 1990s.

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Finland= 2007*

France

By Jean-Marie Gambrelle and Marielle Thomas, Crédit Immobilier de France

Macroeconomic overview

For the first three quarters of 2008, the French economy was largely unaffected by the international financial crisis, in part due to an underestimation of its seriousness and of its ability to affect the real economy. But after the Lehman Brothers' crash (September 2008) the French economy plummeted: at the end of 2008 real GDP grew by a mere 0.4% against 2.3% in 2007.

This disappointing result in 2008 was a consequence of the weakness of domestic demand, resulting from the fall of household investment (-1.4%, against 5.5% in 2007), the weakness in household consumption (0.9%, 2.4% in 2007) and in private fixed investment (2.4% against 8.6%). Foreign trade performed weakly due to a decrease in exports (-0.5% against 2.5% in 2007) while imports remained stable (0.6%, 5.4% in 2007).

French employment decreased with unemployment rate rising to 8.2% at end 2008, against 7.9% at end 2007, while the average annual rate was 7.8%. Nominal households`income was still growing (3.4%, against 5.2% in 2007), but the increase in net income was much lower (0.6% against 3.1% in 2007). Average annual HICP inflation was 3.2%, but year-on- year inflation fell considerably in the second half of the year (in June it was 3.6% and in December it was 1.0%).

Housing and mortgage markets

After 11 years of continued growth, housing and mortgage markets showed a visible slowdown. Yet, housing activity indicators remained at historically high levels. This could be observed with housing starts, new mortgage loans, and house prices.

Housing starts decreased by 15.3%. The drop was heavier for apartments (-17%) than for single-family houses (-14%), but 368,600 units started still represented a high level.

Gross residential lending fell by 16.9% amounting to 122 billion Euros, the decrease being stronger in Q4 2008. Total sales of new properties (79,000 units) fell by 34%, however in 2007 they had reached a peak in in absolute terms, recording the highest level of sales since 1985. The stock of unsold dwellings reached a peak of 110,900 residential properties (with an average duration of 21 months of sale, against 11 months recorded at the end of 2007). The price of new apartments per square metre remained stable (3,300 Euros), but at the end of 2008 the prices of new houses decreased by 6.6% compared with the same period in 2007 and by 10% compared with the same period in 2006. The number of transactions in the second-hand market dropped by 14% (amounting to a total of 667,000 units) with a decrease in prices of 2.9%.

Different factors contributed to the slowdown in the housing market. Firstly, prices stabilised and many potential buyers decided to wait and postpone their purchase. Furthermore, buy-to-let investments became regarded as riskier. Secondly, the rise in fixed rates (by around 0.60%) during the second half of the year and the uncertainty of variable rates for mortgage loans reduced the affordability of households. Finally, the crisis became more evident to consumers after the Lehman crash, lowering confidence and discouraging potential buyers.

However, the cost of non-performing mortgages loans increased, but stayed at very low levels. The rise in variable rates impacted more on the perception of risk by public opinion than on the actual risk. However, the government decided to enhance borrowers`protection by passing a law (Loi n.01/2008 of 3rd January 2008) which obliges lenders to provide consumers with more information, and also requires mortgage lenders to provide recourse to an Ombudsman in the case of disputes. At the same time, lenders raised credit scores due to the growing LTV risks and to increasing funding difficulties.

At the end of 2008, the government decided to support households wishing to buy new dwellings. As a consequence, the stock of dwellings for sale should decrease quickly. However, despite this likely tightening in housing supply, prices should still have further room to decrease in the short-term. Lenders should be able to meet mortgage demand as long as the ECB and EU governments maintain their commitment to sustain the market. In 2009, the French markets should regain stability but growth in activity will likely remain at lower levels compared to the past years.

	EU27, 2008	France, 2008	France, 2007
GDP growth	0.8%	0.4%	2.3%
Unemployment rate	7.0%	7.8%	8.3%
Inflation	3.7%	3.2%	1.6%
% owner occupied	66.8%	57.4%	56.5%
Residential Mortgage loans as % GDP	49.8%	35.9%	34.9%
Residential Mortgage loans per capita, € 000s	12.24	10.99	10.17
Total value of residential loans, € million	6,087,928	700,800	651,900
Annual % house price growth	0.3%	-2.9%	5.7%
Typical mortgage rate (Euro area)	5.5%	5.2%	4.6%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

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

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. France= 2007*

Germany

By Thomas Hofer, Association of German Pfandbrief Banks

Macroeconomic overview

In the first half of 2008 the economy continued to show positive growth, following on from solid growth in 2007. However, from the second half of 2008 onwards, Germany, too, felt the impact of the worldwide economic downturn. The demand for capital goods, which makes up a large portion of German exports, receded. While GDP developed favourably in 2006 and 2007, rising in real terms by 3.0% and 2.5% respectively, overall economic growth in 2008 was considerably less strong (1.3%).

As in previous years, private consumption remained almost unchanged in 2008. Due to the economic upturn in the first half of the year, the number of unemployed declined from 8.4% (2007) to 7.3 % (2008). Inflation increased from 2.3% (2007) to 2.8% (2008).

Housing and mortgage markets

In 2008, investment in residential construction increased slightly (0.8%). In recent years, investment in housing was driven by a number of exceptional factors. This was most evident in 2006, where to a large extent demand was brought forward by the fact that the scheduled VAT increase from 16% to 19% became effective from January 1, 2007. Many homeowners and private landlords carried out renovation investment in 2006 in order to avoid the higher VAT rate. Unsurprisingly, the demand for housing showed signs of slowing down in 2007 and to some extent also in 2008. Building permits declined by 4.2% to 174,595 units in 2008.

The number of transactions has been relatively stable for the last few years. In 2008, the number of transactions decreased slightly (-2%) to 446,000.

Trends in house prices have developed differently in Germany when compared to most other European countries. Most existing data sources report only slight changes in house prices over a long period. In recent years, several attempts were made to compose a house price index measuring the pure house price movement. For the Pfandbrief banks that make up the Association of German Pfandbrief Banks (vdp), gauging house price movements within the scope of the implementation of Basel II has become a major topic. Together with its member banks, the vdp set up a project to generate property price indices for several regional and sectoral markets. Rents and purchase prices for individual properties as well as their value-influencing factors are systematically collected in the vdp transaction database. On the basis of this data, hedonic methods are applied to make detailed evaluations of the development of property prices.

With a view to measuring pure price development, quality-adjusted price indices over the period 2003 to 2008 for single family houses and apartments were produced. Over this period, both indices showed on the whole a positive development, albeit with declines in some years. The average annual price increase for single family houses (2.3% p.a.) was slightly higher than for apartments (1.5% p.a.). In 2005 in particular, a strong rise in prices for both property types of approximately 5% compared to the previous year was observed. This corresponded with a surge in demand towards the end of the year. Many private households brought forward the purchase of a single-family house or owner-occupied apartment in 2005 because the government-allowance given to homebuyers for house purchases was to be abolished on January 1, 2006. This led to a pronounced price increase. Following this jump, prices – with slight fluctuations around the zero line – again reverted to a more subdued development. In 2008, the prices for single family houses rose by 5%, reflecting the recent rise in construction costs.

At the end of 2008, mortgage rates in Germany were slightly lower than at the end of the previous year. Given an almost unchanged demand for house purchases and modernisation and renovation, gross residential lending remained at the same level than in the previous year. Since repayments of existing loans exceeded new lending business, the volume of outstanding residential loans decreased slightly. In 2008, outstanding loans amounted to 1,148 billion Euros (-0.7% compared to 2007).

Funding

Germany has the largest covered bond market in Europe, accounting for 75.7% of the total market. The sub sector of this market for mortgage bonds is also strong in Germany and accounts for 15.2% of the total EU market.

In 2008, Mortgage Pfandbriefe totalling 57.3 billion Euros were issued (in 2007 they were 26.8 billion). In 2008, public Pfandbriefe with an aggregate volume of 89.5 billion (in 2007 they 107.9 billion) Euros were also sold.

While the volume outstanding of Mortgage Pfandbriefe increased from 206.5 billion Euros to 217.4 billion Euros, Public Pfandbriefe declined from 677.7 billion Euros to 578.9 billion Euros.

	EU27, 2008	Germany, 2008	Germany, 2007
GDP growth	0.8%	1.3%	2.5%
Unemployment rate	7.0%	7.3%	8.4%
Inflation	3.7%	2.8%	2.3%
% owner occupied	66.8%	43.2%	43.2%
Residential Mortgage loans as % GDP	49.8%	46.1%	47.7%
Residential Mortgage loans per capita, € 000s	12.24	13.96	14.05
Total value of residential loans, € million	6,087,928	1,147,869	1,155,742
Annual % house price growth	0.3%	5.2%	-0.7%
Typical mortgage rate (Euro area)	5.5%	4.8%	5.0%
Outstanding Covered Bonds as % of residential lending	21.2%	18.9%	17.9%

Source: EMF, EUROSTAT, ECB, National Central Banks, Federal Statistical Office Germany

Notes:

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

Greece

By Theodore Mitrakos, Central Bank of Greece

Macroeconomic overview

The Greek economy grew at a healthy rate of 2.9% in 2008 and 0.3% (year-on-year) in Q1 2009, however negative GDP growth of -1.0% is expected in 2009, due to the expected decline in both consumption and investment as the recession in Europe and the world economy deepens. Economic activity in Greece has been slowing down since the beginning of 2008 on the back of rising oil prices and the deterioration of global financial conditions. Nevertheless, growth in Q3 and Q4 2008 has been a solid 2.7% and 2.4% respectively, compared with the 0.5% and -1.5% year-on-year GDP growth rates recorded in Q3 and Q4 2008 in the euro area. Inflation was at 0.5% in June 2009 and the average inflation for 2009 is expected to be 1.2%, significantly lower than the average annual level of 4.2% in 2008. Economic uncertainty and the substantial fall in international economic activity and trade in Q4 2008 and Q1 2009, has also rocked consumer and business confidence in the Greek economy, undermining economic activity especially in the housing, tourism, manufacturing and retail trade sectors. This has set the stage for a slowdown in consumption and a substantial fall in investment, exports and imports, and in GDP growth.

Housing and mortgage markets

The main characteristic of the housing market in Greece over the last three years has been the deceleration in prices (since the beginning of 2006), which nevertheless kept registering positive annual changes (in nominal terms) in 2008. According to Bank of Greece estimates, residential property prices in all urban areas increased by 2.6% in 2008 from 4.6% in 2007, 12.2% in 2006 and 10.9% in 2005. More specifically, residential property prices in Athens grew by 2.7% in year-on-year terms in 2008, as against 5.2% in 2007 and 11.3% in 2006, while growth in residential property prices for urban areas excluding Athens further decelerated to 2.6% in 2008, from 3.8% in 2007 and 13% in 2006. Following the deceleration in residential property prices in 2008, the annual growth rate in residential property prices is estimated to have turned negative in the first three months of 2009. On the basis of data aggregated by banks, it is estimated that residential property prices fell by 1.4% (in nominal terms) in the first quarter of 2009 on the same quarter of the previous year.

The supply of new houses remained at high levels in 2007 and 2008 (even if the volume of private building activity in terms of residential construction permits issued recorded a decline of 5.3% and a fall of 15.8% in 2007 and in 2008 respectively). On the other hand, the more cautious attitude of banks in granting new housing loans is estimated to have contributed to the falling demand. The fall in demand is also depicted in the continuous deceleration in the outstanding balances of housing loans as a percentage of total bank credit (11.5% at the end of 2008, from 21.9% in December 2007 and 25.8% in December 2006), still registering high growth rates despite the increase in the cost of financing up to October 2008 and the tighter lending criteria imposed by banks for housing loans. On the supply side, there is a substantial stock of new houses gradually being absorbed. The effect of these housing market developments on consumption as a wealth variable is estimated to be rather limited.

Funding

The unavailability of credit was more pronounced in Q1 2009, as Greek banks intensified their re-pricing of customer loans, following a period of negative term deposit spreads in a wider context of post-Lehman deterioration in global funding conditions. Within this framework, the Greek government, in line with prevailing international practice, adopted a 28-billion Euros programme of measures aiming to maintain liquidity and the proper functioning of the domestic financial system, including bank capital injections through the issue of preference shares of 5 billion Euros, guarantees for bank borrowing in the markets of 15 billion Euros, and direct liquidity injection through the issue of special government bonds amounting to 8 billion Euros, to be used with the ECB. This plan started to be gradually implemented in H1 2009 by all the main Greek banks.

	EU27, 2008	Greece, 2008	Greece, 2007
GDP growth	0.8%	2.9%	4.0%
Unemployment rate	7.0%	7.7%	8.3%
Inflation	3.7%	4.2%	3.0%
% owner occupied	66.8%	80.6%	80.1%
Residential Mortgage loans as % GDP	49.8%	32.0%	30.2%
Residential Mortgage loans per capita, € 000s	12.24	6.93	6.21
Total value of residential loans, € million	6,087,928	77,700	69,363
Annual % house price growth	0.3%	2.6%	4.6%
Typical mortgage rate (Euro area)	5.5%	5.3%	4.8%
Outstanding Covered Bonds as % of residential lending	21.2%	6.4%	n/a

Source: EMF, Eurostat, ECB, National Bank of Greece, National Statistical Service of Greece

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Greece= 2008*

Hungary

By Joszef Hegedus, Managing Director, Metropolitan Research Institute

Macroeconomic Overview

Hungary's membership of the European Union in 2004 bolstered the outlook for the economy. The residential debt to GDP ratio increased after 2004 as residential mortgage finance was fueled by cheap international credit (foreign currency denominated loans were mainly in Swiss Francs and Japanese Yen). Foreign Direct Investments continued to flow to Hungary, which, also thanks to the increase in EU funds, contributed to growth in the economy. Until September 2008 household consumption funded by loans had continued to increase, but at the same time industrial production, employment and exports were falling. The Hungarian economy was close to recession even before the credit crunch and this is why the global financial crisis hit Hungary the hardest among CEE economies. A 25 billion USD agreement was signed with the IMF in 2008, because the Hungarian financial sector suffered when credits began to dry up in the middle of 2008. The government successfully decreased the budget deficit from 9.2% of GDP in 2006 to 3.3% of GDP, and kept inflation under control at 6.0% in 2008 (to compare to 7.9% in 2007). The Hungarian economy grew only by just 1.2% in 2007 and 0.5% in 2008, and is expected to contract by 6% in 2009.

Housing and mortgage markets

According to latest available data (2003), Hungary has a 92% homeownership rate as a consequence of the wide privatisation process of the 1990s. By 2000, the housing output had decreased to 22,000 units from 52,000 in 1989, but the housing programme of the government which started in 2000 (in parallel with the economic recovery at the end of the 1990s) continued to impact the residential real estate market. The generous mortgage subsidies (two interest rate subsidy programmes, PIT tax allowance and construction capital grant) boosted the mortgage market, leading to a marked increase in the outstanding mortgage loan to GDP. Building permits and housing construction increased as well. Because of the effect of the housing program on public deficit, the government cut the size of the subsidy and the eligibility criteria. However, the banks introduced foreign currency-denominated loans based on cheap international credit, which sustained the development of the residential mortgage market. The non-subsidised foreign-currency denominated loans were cheaper than the subsidised Hungarian Florint (HUF) loans, However, the interest rate risk and exchange rate risk were borne by the borrowers. By 2008 the outstanding residential loan to GDP ratio increased to 14.0% and the share of foreign-denominated loans rose to 60% of the total stock of loans. Banks started to use financial intermediaries (i.e. brokers) from 2006. As a consequence, the quality of the underwriting process worsened and the traditional mortgage loans were increasingly replaced by loans with real estate collateral used for consumption, and not for housing (through mortgage equity withdrawal).

Housing construction activity decreased in 2008, but less than expected (from 36,159 housing completions in 2007 to 36,075 in 2008). However, there are other signs of difficulty in the construction sector as well, such as the stocks of unfinished buildings. It is expected that real fixed housing investment will fall in 2009 (although the tightening of the housing subsidy scheme in 2009 has brought forward some housing investment).

House prices increased just before the new housing policy was implemented as a correction to the downward trend in 1990s. The mortgage boom had an effect on house prices but did not lead to a house price bubble. The data for 2008 does not demonstrate a house price decrease yet, but anecdotal information indicates a 10% house price decrease year-on-year. Foreign demand for real estate in Budapest has greatly weakened, the demand from foreign investors went down substantially, the amounts involved were greatly reduced and the bargaining process lengthened.

The mortgage market has changed dramatically after September of 2008. The weakening HUF caused a radical 30-40% increase of the mortgage repayment for borrowers of foreign currency denominated loans, which increased the probability of arrears. According to a Hungarian National Bank publication, the probability of mortgage arrears next year increased from 2.5% in 2005 to 3.8% in 2008. The number of foreclosures has been increased but there is no reliable information available. Given the low Loan-to-Value ratio (61% in 2007) and the fact that there has been no substantial price fall, the recent increase in foreclosures is due to high payment/income ratio. Because of the general economic recession, rising unemployment and decreasing household income the probability of arrears is increasing. According to a simulation model carried out by a Hungarian National Bank study, Hungarian banks may have to write off HUF 118 billion of their retail mortgage loans, or about 2% of their combined lending portfolio at the end of 2008, assuming current macroeconomic trends continue. However, in case the economy experiences further shocks - such as a 10% decline in GDP and a weakening of the HUF/EUR rate to 340, the banking system could sustain a loss of 372 billion HUF, or 6% of their total portfolio.

The Hungarian government introduced a special programme to help households that have difficulties in making their loan payments because they have lost their jobs. The programme has not been implemented yet. An important change in housing policy was announced in 2009 suspending the construction subsidy and the general interest rate subsidies which were replaced by a special mortgage programme which is aimed at young families.

	EU27, 2008	Hungary, 2008	Hungary, 2007
GDP growth	0.8%	0.5%	1.2%
Unemployment rate	7.0%	7.8%	7.4%
Inflation	3.7%	6.0%	7.9%
% owner occupied	66.8%	92.0%	92.0%
Residential Mortgage loans as % GDP	49.8%	14.0%	12.4%
Residential Mortgage loans per capita, € 000s	12.24	1.46	1.25
Total value of residential loans, € million	6,087,928	14,694	12,535
Annual % house price growth	0.3%	-4.5%	6.8%
Typical mortgage rate (Euro area)	5.5%	11.2%	9.9%
Outstanding Covered Bonds as % of residential lending	21.2%	48.4%	47.8%

Source: EMF, Eurostat, ECB, Hungarian National Bank, National Census

Notes:

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

Ireland

By Tom O'Connor, Irish Banking Federation

Macroeconomic overview

After over a decade of strong economic growth, Ireland was impacted by the global downturn in 2008. Gross domestic product contracted by 2.3% in 2008, although this trend of declining GDP growth had been emerging since the second half of 2007. The initial easing of construction activity that began in 2007 continued and filtered into other economic sectors, resulting in an increase in the unemployment rate from 4.6% in late 2007 to 7.7% a year later. As a small, open and export-oriented economy, Ireland was also impacted significantly by global developments which weakened domestic sentiment. Ireland, like its main trading partners, the UK, the euro area and the US entered recession in the latter half of 2008.

Exchange rate movements and the depreciation of sterling in particular, also had adverse effects on the economy's competitiveness, especially for exporters. Inflation, fuelled by high energy prices, peaked in mid-2008 with the Consumer Price Index reaching 5%in June. Inflationary pressures dropped off sharply thereafter aided by the consecutive reduction in ECB interest rates. Overall, the Harmonised Index of Consumer Prices (HICP) was 3.1% in 2008, up from 2.9% in 2007.

Housing and mortgage markets

The slowdown in the mortgage market that had begun in 2007 continued in 2008 and was exacerbated by both global economic events and domestic developments. The sustained decline in the construction sector was demonstrated by the 34% fall in completions to 51,724 units in 2008. Housing starts fell by 53.2% to 22,852 units indicating that the tightening of housing supply is likely to continue into 2009. The construction slowdown translated into increasing unemployment and falling tax revenues in the first instance, before impacting on the wider economy.

Events in global markets that culminated in the liquidity crisis, including the collapse of Lehman Brothers Holdings Inc., constrained funding for financial institutions in Ireland. Uncertainty grew and confidence was shaken, prompting the Government to take a number of actions to strengthen the banking sector: firstly in September, the Government increased the amount of a depositor's money covered by the Deposit Guarantee Scheme from a maximum of 20,000 Euros to 100,000 Euros; then at the end of September, the Government moved to implement a guarantee of all deposits (retail, commercial, institutional and interbank) for a length of two years at a charge to participating credit institutions; finally, in December the Government announced that it was formulating a recapitalisation programme for investment in credit institutions of systemic importance to the Irish economy, for an appropriate return to the taxpayer, with a view to encouraging the flow of funds to the economy. In 2008, non-deposit taking mortgage lenders became regulated for the first time and thereby had to adhere to the authority of the Financial Regulator and to be compliant with the Regulator's centrepiece document, the Consumer Protection Code.

Demand for housing was suppressed by growing and pervasive labour market uncertainty, as well as falling personal income. In October, the Government increased taxation to ease the exchequer deficit, with a view to further tax increases in 2009. Thus, property purchasers and potential property purchasers were constrained by both falling and uncertainty over income, which constrained mortgage lending compared to 2007. A total of 110,305 mortgage loans was issued in 2008 at a value of 23,049 million Euros which represented a decrease of 30% compared to the previous year. Of these, 40,390 loans at a value of 10,405 Euros million were for the purchase of a home in 2008, representing a decrease of 36% in the number of loans drawn down by First- and Second-Time Buyers compared to the previous year. Similarly, the number of buy-to-let loans issued fell 36% to 13,226.

While growth of new mortgage lending declined, net lending continued to increase, with the total value of outstanding mortgages reaching almost 148 billion Euros by the end of 2008, an increase of nearly 6% on the previous year. At the same time, the position of many existing mortgage-holders was improved by the favourable cuts in the ECB rates and the general easing of inflation which, by the end of 2008, was negative in monthly growth terms. The Government also increased mortgage interest relief in November 2008 for First-Time Buyers which was designed to assist those more exposed to falling property values. Similarly, the position of potential purchasers was also improved as property prices, which had been falling since early 2007, continued that trend decreasing 9% nationally to 261,573 Euros from 287,887 Euros a year previous. Interestingly, prices fell more for First-Time Buyers (14%) than for Second-Time Buyers (less than 8%) and for second-hand property (around 10%) more than for new homes (just over 8%). Given these trends, it was not surprising that First-Time Buyers increased their share of the number of new mortgage loans drawn down by 6 percentage points during 2008 although of a reduced market overall. Indications are that affordability is likely to continue to improve for potential purchasers although many appear to be refraining from entering the market given the level of economic uncertainty and the sentiment that property prices are likely to continue to decrease at least in the short-term.

The levels of distress in the mortgage market remained notably low in 2008 despite the adverse economic conditions. The number of mortgage accounts in arrears of three months or more was just 1.44% when all mortgage lenders (including lenders in the small sub-prime market) were surveyed in mid-2008. The volume of repossessions again remained very low, particularly when compared with other European countries, with 96 properties taken into possession by mainstream lenders in 2008, amounting to just 0.01% of mortgage loans.

A further decline in the volume of units completed is expected in 2009 which will move the housing market towards equilibrium. As a consequence of this and the changed funding environment, mortgage lending is likely to remain subdued at least in the short-term. The Irish economy is unlikely to return to growth until the global economy, in particular Europe and the United States, recovers. However, international investors have responded positively to the decisive actions taken by the Government and the widespread and significant wage cuts across the public and private sector that, together with falls in other costs, will go some way towards enhancing competitiveness.

Funding

The funding environment in Ireland was also impacted by global market events. The Guarantee put in place by the Irish Government applies to funding instruments of covered institutions. Similar guarantees were subsequently put in place in other jurisdictions, giving rise to the Government Guaranteed Bond (GGB) asset class. Irish institutions issued 5.5 billion Euros in GGBs in 2008.

Securitisation issuance in Ireland totalled 40.7 billion Euros in 2008, significantly up on the 10.4 billion Euros issued in 2007. Most of the issuance in 2008 was RMBS 36 billion Euros, compared to 6.9 billion Euros in 2007), with CMBS issuance in 2008 of 3 billion (in 2007 it was 1.5 billion Euros).

There was strong covered bond issuance in 2008, with 9.5 billion Euros of Asset Covered Securities (ACS) backed by mortgages being issued, bring total outstandings of ACS backed by mortgages to 23 billion Euros. Also, a new issuer, EBS Mortgage Finance, entered the ACS market. ACS remained an attractive funding option, especially given their eligibility as collateral with the European Central Bank in its market operations.

	EU27, 2008	Ireland, 2008	Ireland, 2007
GDP growth	0.8%	-2.3%	6.0%
Unemployment rate	7.0%	6.3%	4.6%
Inflation	3.7%	3.1%	2.9%
% owner occupied	66.8%	74.5%	74.5%
Residential Mortgage loans as % GDP	49.8%	80.0%	75.3%
Residential Mortgage loans per capita, € 000s	12.24	33.75	32.20
Total value of residential loans, € million	6,087,928	148,542	139,842
Annual % house price growth	0.3%	-9.1%	-7.3%
Typical mortgage rate (Euro area)	5.5%	5.3%	5.1%
Outstanding Covered Bonds as % of residential lending	21.2%	15.5%	9.7%

Source: EMF, EUROSTAT, ECB, Central Statistics Office, Department of the Environment, Heritage and Local Government, ESRI, Central Bank and Financial Services Authority of Ireland, ptsb/ESRI House Price Index, IBF/PwC Mortgage Market Profile

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Ireland= 2008*

Italy

By Angelo Peppetti, Italian Banking Association

Macroeconomic overview

In 2008, real GDP decreased by 1.0%. The economic downturn was felt most acutely during the fourth quarter of 2008 when GDP fell by 1.9% on a year-on-year basis, recording the worst drop since the 1974-75 economic recession. As the global economic crisis deepened, the demand for exports dropped by 7.4%, while at the same time a slowdown in private investment was recorded, particularly in machinery, equipment and transportation (-8.9%). Household consumption expenditure also fell by approximately 1.0%.

In 2008, both the high increase in the price of raw materials, as well as the gradual worsening of economic conditions in the major global markets negatively impacted the Italian foreign trade balance: indeed, terms of trade and the quantities exchanged decreased. All the manufacturing sectors, with the exception of foodstuff products, suffered from a sharp reduction in exports. In particular, the so-called 'made-in-Italy' products (leather, furniture) and machinery products, which after the rise in exports of the previous two years, suffered from slackening global demand for investment goods. The decrease in the overall volume of imports exceeded the reduction in the volume of exports; this decrease was particularly marked in investment goods (-5.4% on 2007) which dramatically weakened during the last quarter of the year (-7.4% compared with the same quarter in the previous year).

During 2008, the unemployment rate continued to rise, reaching 6.8%, compared to 6.1% in 2007.

Consumer price inflation decreased from 4.1% in July and August to 2.2% in December. The rapid fall in inflation was entirely due to the gradual loosening in inflationary pressures from commodity prices and food products. On the whole in 2008, the consumer price index rose by 3.5% (2.0% in 2007).

Housing and mortgage markets

In 2008, the housing market recorded 686,587 transactions signalling a drop of 15.1% compared with 2007 data when 806,225 sales were recorded. Despite the falling number of sales in 2008, house prices remained fairly stable, recording an increase of 1.3%.

The value of outstanding residential mortgages increased from 305,488 million Euros in 2007 to 311,788 million Euros in 2008, which represented an annual increase of 2.5%, which is remarkably lower than the 2007-2006 increase (10.2%). In 2008, net lending amounted to 7,565 million Euros, which represented an annual decrease of 73.1%; whereas gross lending amounted to approximately 85 billion Euros, which amounted to a 9.7% decline on the previous year.

In 2008, the initial average interest rate on residential mortgage loans showed a slight increase of 0.23%. The year-end interest rate, in fact, reached 6.29% in 2008 compared to 5.20% in 2007.

During 2008, two relevant legislative measures were introduced in order to support residential mortgage borrowers. Article 3 of the Italian Legislative Decree 93 dated 27 May 2008 defines procedures and criteria relating to the renegotiation of adjustable-rate mortgages; this initiative was supported by an agreement signed by the Italian Ministry of Economics and Finance and the Italian Banking Association (ABI) on 19 June 2008. This refers to all residential mortgages, originated prior to 29 May 2008, for the purchase, construction and renovation of first homes. It aims at ensuring the repayment of mortgages considering the financial needs of mortgage borrowers. Approximately 47,000 renegotiations have been concluded, at an aggregate amount of 5 billion Euros. Moreover, article 2, paragraphs 1 to 3 of Italian Legislative Decree 185/2008 sets interest subsidies for the reduction in instalments of adjustable-rate mortgages during 2009. These subsidies apply to instalments calculated on the basis of a rate which is equal to the larger rate between 4% and the ongoing rate which is stated in the mortgage agreement.

Funding

As regards the securitisation of credits related to mortgage contracts, in 2008 the volume of transactions amounted to 63.2 billion Euros.

As regards covered bonds, since the enforcement of Law 80/2005, which introduced such funding instruments into the Italian system, the first issuances of covered bonds amounted to a total of 6.5 billion Euros.

	EU27, 2008	Italy, 2008	Italy, 2007
GDP growth	0.8%	-1.0%	1.5%
Unemployment rate	7.0%	6.8%	6.1%
Inflation	3.7%	3.5%	2.0%
% owner occupied	66.8%	80.0%	80.0%
Residential Mortgage loans as % GDP	49.8%	19.8%	19.8%
Residential Mortgage loans per capita, € 000s	12.24	5.23	5.13
Total value of residential loans, € million	6,087,928	311,788	305,488
Annual % house price growth	0.3%	1.3%	5.5%
Typical mortgage rate (Euro area)	5.5%	6.3%	5.2%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, EUROSTAT, ECB, Bank of Italy, ABI

Notes:

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

Latvia

By Rodolfo Labadie, EMF

Macroeconomic overview

In 2008 the Latvian economy suffered from adverse external financial and economic conditions. After a decade of sustained GDP growth during which Latvia benefited from one of the highest economic growth rate in the EU27, real GDP fell in 2008 by 4.6%; this was the most severe decrease in GDP among EU27 countries. Real GDP contracted because of falling domestic demand (-13.0%), falling private consumption (-11.0%) and gross capital formation (-13.2%)[31]. Deteriorating financial positions of domestic enterprises, slower activity in construction and tighter lending were the main factors behind investment contraction, while collapse in consumer confidence and rising unemployment underpinned private consumption[32].

The level of unemployment rose to 7.5% by year-end 2008, representing a 1.5% rise over 2007. Consumer prices increased in 2008 with average annual inflation reaching a high of 15.3%, well above the 10.1% recorded in 2007; this was the highest inflation rate recorded among EU27 countries in 2008.

The current account deficit reached 13.6% of GDP in 2008, with banking sector holding 62.6% of the external debt. The share of government and central bank liabilities over external debt increased from 4.0% in 2007 to 8.4% in 2008. Tax revenues decreased sharply as a result of dampening economic growth and shrinking domestic demand[33]. At year-end the government deficit amounted to 4.0% of GDP.

The interbank rate for domestic currency loans (RIGIBOR) increased throughout the year reaching 13.5% by year-end.

Facing a deep economic recession and bound to defend convertibility of the Lat with Euro under a currency board, Latvia negotiated an IMF Stand-By Arrangement for economic stabilisation and restoration of economic growth. The government received the first credit tranche of 589.6 million Euros in December 2008.

Housing and mortgage markets

After years of growth the Latvian housing market began a sharp contraction. The increase in house prices and construction experienced over previous years could not be sustained by domestic demand, despite easy access to lending. The number of building permits fell by 29.7% on an annual basis, reaching a total of 4,507. After reaching a record high of 9,319 in 2007, housing completions in 2008 fell 13.2% to 8,084 units. Although there is no official data on house prices in Latvia, after four years of record growth, the average value of a housing transaction in 2008 fell by 26.4%[34].

Mortgage lending sharply decreased, recording an annual increase of only 7.4% compared to 43.9% in 2007 and 86.3% in 2006. Total outstanding residential lending amounted to 7,220 million Euros. Net residential lending fell by 76.1% on an annual basis to 494 million Euros, recording one of the deepest falls among EU27 countries.

By year-end, interest rates on loans for house purchases denominated in Lats rose to 6.62%; only 13.7% of outstanding mortgage loans were denominated in local currency whereas 85.2% were denominated in Euros and 2.4% in US dollars.

Funding

Deposits are the main funding source in Latvia. It appears that funding sources have become more constrained with the share of deposits to total liabilities of Latvian banks having decreased each year with the ratio equalling 42,0%, 46.5% and 48.8% for the years 2008, 2007 and 2006 respectively.[35] The share of bonds (including mortgage bonds) and other debt securities on total bank liabilities also decreased to 0.8% as end of 2008 compared to 1.4% in 2007 2007 and 2.0% in 2006[36]. To date, 4 banks in Latvia have issued mortgage bonds: Trasta Komercbanka, Latvijas Hipotēku un Zemes Banka, Baltic Trust Bank and Privatbank. The outstanding amount of covered bonds in 2008 was 95 million Euros, up by 163.5% over 2007 and totalling 0.4% of 2008 GDP. Total covered bond issuance was 11 million Euros in 2008.

	EU27, 2008	Latvia, 2008	Latvia, 2007
GDP growth	0.8%	-4.6%	10.0%
Unemployment rate	7.0%	7.5%	6.0%
Inflation	3.7%	15.3%	10.1%
% owner occupied	66.8%	87.0%	87.0%
Residential Mortgage loans as % GDP	49.8%	31.2%	33.7%
Residential Mortgage loans per capita, € 000s	12.24	3.18	2.96
Total value of residential loans, € million	6,087,928	7,220	6,726
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	6.6%	5.9%
Outstanding Covered Bonds as % of residential lending	21.2%	0.4%	0.4%

Sources: ECB, Eurostat, the Bank of Latvia, Central Statistical Bureau of Latvia

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Latvia=2007.*

[31] Source: Eurostat.

[32] The Bank of Latvia, *Annual Report 2008.*

[33] The Bank of Latvia, *Annual Report 2008.*

[34] Central Statistical Bureau of Latvia.

[35] The Bank of Latvia.

[36] The Bank of Latvia.

Lithuania

By Jonas Grincius, Parex Bank

Macroeconomic overview

Despite the ability to resist the impact of the global downturn in first half of 2008 Lithuania joined two other Baltic states, Estonia and Latvia, into economic recession. GDP year-on-year growth in Q4 2008 was negative (-2.0%) and slowed down in comparison with 2007 (3.0% in 2008 vs 8.8% in 2007). The unemployment rate rose by 1.5% reaching 5.8% (compared with 4.3% at the end of 2007). Average harmonised index of consumer prices inflation reached 11.1% in 2008 (it was 5.8% in 2007). The Vilnius interbank offered rate (VILIBOR) for loans in Lithuanian litas increased considerably. The three–month VILIBOR went up to 9.89% at the end of 2008 (it was 6.65% at the end of 2007) and six–month VILIBOR reached 10.15% at the end of 2008 (it was 7.18% in the end of 2007).

Housing and mortgage markets

The percentage of privately owner-occupied dwellings out of the total dwelling stock remained at the level of 2007, i.e. 97%.

Residential prices grew by around 4% during the first quarter of 2008, remained stable during the second quarter and started decreasing during the third and fourth quarters. With limited market liquidity, estimates of the annual decrease in house prices vary, but most agree on a decrease from 15% to 20% on a year-on-year basis. The reason for the slow down in first half of the year was the tightening in lending criteria and a deterioration in consumer sentiment due to the crisis in real estate markets worldwide, especially in neighbouring Estonia and Latvia. The dramatic changes recorded over the second half of the year were triggered by the global events, which severely hit the young economies of the Baltic countries.

During the year, the supply of new housing outpaced demand, and this further contributed to the decline in prices.

Outstanding loans to households for house purchase increased by 14.9% on the previous year and reached 5,575 million Euros at the end of 2008. The year-on-year increase recorded in 2008 was considerably lower than in 2007, but was also higher than the increase on the previous year recorded in the other Baltic countries – Latvia and Estonia, as those countries experienced sharper mortgage business declines.

Total residential mortgages as a percentage of GDP were 17.3% in Lithuania at the end of 2008, much lower than in neighbouring Latvia and Estonia.

Interest rates on loans for house purchase rose during 2008, mainly due to increasing interbank rates and increasing margins. The weighted average interest rate on Euro-denominated loans to households for house purchase was 5.69% in December 2008; the respective rate was 5.20% in December 2007. The increase in interest rates was higher for loans denominated in Lithuanian Litas. The weighted average interest rate on LTL-denominated loans to households for house purchase was 8.25% in December 2008, while the respective rate was 7.77% in December 2007.

Funding

As the amount of deposits started to decrease rapidly towards the end of 2008 (the decrease recorded in 2008 was of 4.7%, i.e. 544 million Euros in absolute value). Lithuanian banks began to raise funds in the interbank market. Funds in parent banks or in the same group of banks increased by 3.1 billion Euros during 2008. The total amount of deposits reached 11.1 billion Euros and included 46.1% of all liabilities at the end of 2008 (it amounted to 11.6 billion Euros, representing 49.5% of all liabilities at the end of 2007). Funds in parent banks went up to 11.1 billion Euros and comprised 46.3% of all liabilities at the end of 2008 (27.7 billion Euros, representing 36.9% at the end of 2007). Deposits and funds from parent banks were the main funding sources for Lithuanian banks.

	EU27, 2008	Lithuania, 2008	Lithuania, 2007
GDP growth	0.8%	3.0%	8.8%
Unemployment rate	7.0%	5.8%	4.3%
Inflation	3.7%	11.1%	5.8%
% owner occupied	66.8%	97.0%	97.0%
Residential Mortgage loans as % GDP	49.8%	17.3%	17.5%
Residential Mortgage loans per capita, € 000s	12.24	1.66	1.44
Total value of residential loans, € million	6,087,928	5,575	4,853
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	5.5%	5.3%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Sources: ECB, Eurostat, Bank of Lithuania, Statistic Bureau of Lithuania

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Lithuania= 2008*

Luxembourg

By Alessandro Sciamarelli, EMF

Macroeconomic overview

Like most of the EU's advanced economies in 2008, Luxembourg fell into recession as a consequence of the deterioration in the international macroeconomic environment: real GDP growth rate on the previous year was negative (-0.9%), after a 5.2% increase recorded in 2007 and increases for four consecutive years prior when economic growth was above 4%.

The main driver for the negative performance of the economy was the decrease in domestic demand: gross fixed investment slowed down (1.7%) after the bullish 11.8% increase recorded in 2007, other sub-components of domestic demand also performed poorly, especially investment in equipment (0.3%) and households` consumption (0.8%). Exports fell markedly, by 2.0%, on the previous year, but the current account balance in 2008 was still in surplus (at 5.5% of GDP), albeit declining from 2007 (9.8%). The rise in the consumer price index accelerated in comparison to 2007 (4.1% vs. 2.7%), due to the inflationary pressures over the first half of 2008. Despite the general worsening macroeconomic conditions, the government deficit to GDP ratio was still positive (2.6%), while government gross debt doubled in comparison with 2007 but remained at very low levels (14.7% of GDP). The unemployment rate also increased, reaching 4.9% (it was 4.2% in 2007).

	EU27, 2008	Luxembourg, 2008	Luxembourg, 2007
GDP growth	0.8%	-0.9%	5.2%
Unemployment rate	7.0%	4.9%	4.2%
Inflation	3.7%	4.1%	2.7%
% owner occupied	66.8%	75.0%	74.6%
Residential Mortgage loans as % GDP	49.8%	43.5%	38.5%
Residential Mortgage loans per capita, € 000s	12.24	32.93	29.03
Total value of residential loans, € million	6,087,928	15,940	13,847
Annual % house price growth	0.3%	1.6%	1.5%
Typical mortgage rate (Euro area)	5.5%	3.5%	4.8%
Outstanding Covered Bonds as % of residential lending	21.2%	0.9%	1.1%

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

Housing and mortgage markets

Housing activity slowed down sharply in 2008. The number of building permits issued decreased by 28.6% on 2007 (4,017 units in 2008 vs 4,934 in 2007). Contrary to what happened in many EU housing markets in 2008, in Luxembourg house prices did not fall from the level reached over the previous year, but rather continued to show signs of stabilisation: after the 9.6% average annual increase in house prices recorded between 2000 and 2006, in 2008 the housing market also recorded the same modest growth rate in house prices as in 2007 (1.6% versus 1.5%). Residential mortgage lending market in absolute values grew by 15.1% in 2008 on the previous year (amounting to 15.9 billion Euros) which was the highest year-on-year increase recorded among EU15 countries. In terms of percentage of GDP, mortgage lending also increased and went from 38.5% to 43.5%. Representative mortgage interest rates rose from 3.47% in 2007 to 4.75% in 2008, but they remained below the euro area level (5.47%).

Funding

Although Luxembourg was one of the first entrants in the 'new' Covered Bond market in the EU since its internationalisation in the late 1990s, the main funding source for mortgage lending in Luxembourg continue to be deposits. In 2008, mortgage covered bonds amounted to 160.9 billion Euros, which was equal to 0.4% of GDP and to 1.0% of outstanding residential lending. These figures did not change substantially in comparison to 2007.

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Luxembourg= 2008*

Malta

By Peter Sant, Bank of Valletta

Macroeconomic overview

During 2008, the Maltese economy recorded an increase of 2.7% in real terms. GDP per capita at current market prices amounted to 14,000 Euros or 78.9% in PPS (Purchasing Parity Standards) relative to the EU-27 average.

The effects of the international financial crisis started to impact in the fourth quarter of 2008, when quarter-on-quarter growth in gross domestic product fell into negative territory. This was due in large part to fewer tourists visiting the country and lower export orders in the electronic goods, automobile component and pharmaceutical sectors.

The unemployment rate declined from 6.4% in 2007 to 5.9% in 2008. In 2008, the labour force was 171,316 of which 10,790 were unemployed. The number of persons working in the private sector totalled 113,467 and those in the public sector totalled 47,059.

Due to the rise in the prices of water and electricity, the inflation rate surged from 1.3% in January 2008 to 4.3% in December 2008; average annual inflation was 4.7%.

Housing and mortgage markets

The number of household dwellings is approximately 135,000 units. In the years 1995-2005 home ownership increased from 65% to 75%.

During 2008, the number of building permits for dwellings issued by the Malta Environment and Planning Authority decreased by 40% on the previous year to a total of 6,836. This was due to a decrease in market demand for apartments, maisonettes and terraced houses. In 2008, the Property Price Index registered an increase of 1.0% on 2007.

There are currently over 53,000 vacant properties in Malta, of which roughly 8,000 to 10,000 are for sale at any point in time. The Maltese Government has allocated through the National Housing Authority an annual budget of 4.1 million Euros as capital investment in social housing. The Housing Authority operates a number of interest rate subsidy and equity sharing schemes. Currently, the Maltese authorities are discussing a reform of the rental sector (i.e. commercial and private) and are planning some regulation ensuring that the reform programme is more market-oriented whilst maintaining a social safety net in place.

The housing market experienced a significant fall in the prices of apartments and terraced houses. The total volume of mortgage lending for the purchase of residential housing totalled 204.9 million Euros in 2008, below the 245 million Euros registered in 2007. Total outstanding mortgages held by private banks in December 2008 amounted to EUR 2.23 billion which represents around 34% of lending to residents. Total amount of mortgage lending to GDP in 2008 was 38.8%.

Mortgage interest rates fell from 5.44% in January 2008 to 4.03% by the end of the year. This fall in the interest rates was due to an increase in competition between domestic banks and a fall in the European Central Bank reference. Households' interest payments during the first six months of 2009 were lower than in the corresponding period of 2008. The effect of a higher outstanding level of debt, both in terms of mortgage and other consumer credit (i.e. outstanding loans with banks), was more than offset by a decline in the weighted average interest rate paid by householders.

Losses in asset portfolios exceeded additional households' deposits and bond holdings, while falling housing prices, approximately 10.0% on a year-on-year basis as at end-March 2009, reduced the value of housing wealth. Households are also finding it more difficult to service their debts. This is evidenced by an increase in non-performing loans. Non-performing mortgage loans as a percent of outstanding loans increased from 2.1% in 2007 to 2.4% in 2008 and other credit non-performing loans rose from 4% to 4.5%.

Funding

All mortgage loans originated by commercial banks are funded with deposits. In 2008 total resident customer deposits totalled 9.4 billion Euros whilst the loan to deposit ratio was 70%.

	EU27, 2008	Malta, 2008	Malta, 2007
GDP growth	0.8%	2.7%	3.9%
Unemployment rate	7.0%	5.9%	6.4%
Inflation	3.7%	4.7%	0.7%
% owner occupied	66.8%	75.0%	74.1%
Residential Mortgage loans as % GDP	49.8%	38.8%	37.6%
Residential Mortgage loans per capita, € 000s	12.24	5.43	4.94
Total value of residential loans, € million	6,087,928	2,228	2,021
Annual % house price growth	0.3%	1.0%	-1.8%
Typical mortgage rate (Euro area)	5.5%	4.0%	5.4%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, Eurostat, ECB, Central Bank of Malta, National Statistics Office of Malta

Notes:

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

Netherlands

By Marja Elsinga, Delft University of Technology

Macroeconomic overview

In 2008 the Dutch economy grew at a rate of 2.1%, a figure affected by the worldwide decline in economic growth, which was felt in the Netherlands particularly at the end of 2008 and thereafter. Compared to the 3.5% growth rate recorded in in 2007, this marked a considerable slowdown, but still put the Netherlands above the EU average (0.8%). The slowdown in economic growth was driven by a drop in exports, with the worldwide economic downswing causing a global decline in international trade.

The figures for the Dutch labour market in 2008 were quite positive compared to the EU average, and also as compared to the previous year. The unemployment rate dropped from 3.2% in 2007 to 2.8% in 2008, marking the lowest unemployment rate in the EU27. However, the situation is evolving, with the economic downturn seriously affecting the labour market in 2009.

In 2008, inflation in the Netherlands was higher than for the previous year, rising from 1.6% to 2.2%, but still remaining below the EU27 average (3.7%).

Housing and mortgage markets

The number of building permits issued dropped slightly, from 87,900 in 2007 to 87,200 in 2008, while the number of housing completions also fell, from 80,200 to 78,900, representing a decrease of 1.6%. So far, these figures show only minor effects of the worldwide economic recession. It should be noted that in the Netherlands the lag between the issuance of a building permit and the building completion is traditionally long and has been on the increase over the past few years. Moreover, the housing market is dominated by professional building companies that only start building after selling approximately 70% of the dwellings involved in the project. Therefore additional information concerning the number of new and planned dwellings sold would be valuable in this context. In the same period, the number of owner-occupied dwellings that were sold decreased by 30%, as a serious drop in consumer confidence resulted in decreasing demand. In the Dutch context, this drop in the number of sales due to the economic downturn will also negatively impact the number of completions at a later stage.

Over the last decades, the share of owner-occupied dwellings in the housing stock has considerably increased, moving from 42.0% in 1983 to 57.0% in 2008. Nevertheless, the home-ownership rate is far below the EU27 average. The rental market is dominated by housing associations which provide affordable rental accommodation (accounting for 32% of the total housing stock). They also invest in owner-occupied dwellings. The private rental sector (which accounts for 11% of the total housing tenure) consists of institutional investors such as insurance companies and pension funds (6%) and private individuals letting one or more dwellings. In recent years there has been a shift in demand away from owner-occupied to rental dwellings and the share of housing production has changed accordingly. In particular, housing associations which had planned to build owner-occupied dwellings are now turning the dwellings into rental accommodation, planning to sell these when market circumstances improve.

The Netherlands has experienced a sustained period of house price increases. Prices have risen, on average, from 60,000 Euros in 1985 to 248,000 Euros in the third quarter of 2008. Over the period 1996-2001, house prices increased by 10 to 20% per year on average. Since then, the increase has slowed to 4 to 5% per year. The annual average house price increase in 2008 was flat (-0.1%), after the 3.6% increase recorded in 2007. Quarterly figures reveal that house prices started to decrease in the fourth quarter of 2008[37]. The downturn in the housing market was also reflected in the figures for housing market transactions, which dropped from 202,401 in 2007 to 182,400 in 2008, a decrease of 10%[38].

The Netherlands has the highest residential mortgage debt to GDP ratio in the EU (99.1% in 2008). Factors such as increasing house prices, a healthy labour market, increasing incomes and the fact that 100% of the mortgage interest rate can be deducted from income tax, have all contributed to enormous growth in mortgage lending in recent years. Since 2005, net residential lending has slowed down; this decline continued into 2008, from 36,539 loans approved in 2007 to 30,550 in 2008[39]. In 2008, the total value of outstanding mortgages taken out by households was 589,532 million Euros, which was an increase of 6.9% on 2007. The representative mortgage rate for new loans increased from 4.96% in 2007 to 5.34% in 2008 and during 2008 the fixed interest period shifted towards periods of one to ten years.

The market share of mortgages with a fixed interest period of more than 10 years fell from 38% in 2007 to 19% in 2008, while the share of mortgages with a fixed period shorter than 1 year fell slightly, from 17.5% to 15%.

The total number of foreclosures of dwellings owned by households who failed to repay their mortgages increased from 1,811 to 1,961. The Dutch government established a mortgage guarantee (NHG) for mortgages up to 265,000 Euros, which insures the lender for the losses incurred in the case of a forced sale of the purchased dwelling. Such a guarantee operates when the borrower cannot meet the payment obligations and is forced to sell the dwelling and when the outstanding mortgage is higher than value of the dwelling: this negative equity is then covered by the guarantee. In 2008, 927 losses were covered by this governmental scheme, for an average value of 28,500, Euros, which was lower than in 2007, as was the total loss. However, the decline in the number of foreclosures should be examined in the light of the housing price collapse in the early 1980s which showed that the number of foreclosures incurring a loss only started to increase two years after the start of the downturn.

In response to the stagnation in the housing market, the Dutch Ministry of Housing has introduced measures to support the market[40]. The first measure was to increase the maximum limit of the NHG from 265,000 Euros to 350,000 Euros. This is a temporary measure which came into force on 1st July 2009 and will end in 2011. This measure aims to increase the number of housing transactions and the sales of newly-built dwellings, by providing the security of a guarantee to a larger group of borrowers. Another governmental measure was to provide financial support for housing construction, through a special fund amounting to 239 million Euros which will be granted to projects that meet certain criteria, including the provision of affordable dwellings and the rapid start to building projects. These funds will be granted in three stages: June 2009, late 2009 and 2010.

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[37] Monitor New Dwellings, Netherlands.

[38] RICS Housing Review 2008.

[39] WEW (Homeownership Guarantee Fund Foundation), Annual Report 2008.

[40] Letter of Minister Van der Laan to the Parliament, June 2009.

	EU27, 2008	Netherlands, 2008	Netherlands, 2007
GDP growth	0.8%	2.1%	3.5%
Unemployment rate	7.0%	2.8%	3.2%
Inflation	3.7%	2.2%	1.6%
% owner occupied	66.8%	57.0%	57.0%
Residential Mortgage loans as % GDP	49.8%	99.1%	98.6%
Residential Mortgage loans per capita, € 000s	12.24	35.94	34.14
Total value of residential loans, € million	6,087,928	589,532	551,530
Annual % house price growth	0.3%	-0.1%	3.6%
Typical mortgage rate (Euro area)	5.5%	5.3%	5.0%
Outstanding Covered Bonds as % of residential lending	21.2%	3.6%	2.8%

Source: EMF, Eurostat, ECB, Statistics Netherlands, Netherlands Bureau for Economic Policy Analysis, Kadaster/ Dutch Land Registry Office

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Netherlands= 2008.*

Poland

By Agnieszka Nierodka, Mortgage Credit Foundation

Macroeconomic overview

The macroeconomic environment in Poland in 2008 was still very positive. Real GDP growth on 2007 reached 5.0%, although the growth rate slowed down in the last quarter to 2.9%. GDP growth was mainly driven by domestic demand (which increased by 4.8%) – largely due to the high growth rate in investment (7.9%), as well as in consumer demand (5.4%). Nevertheless, it should be noted that growth rates in all these indicators decelerated in Q4 2008.

At the end of 2008, the unemployment rate rose to 9.5% (7.1% as a yearly average) whereas the active population increased by 2.2%. In 2008, the increase in the average gross wage and salary in the private sector amounted to 5.5%.

Inflationary pressures in 2008 were still considerable – in annual terms the inflation rate stood at 4.2% (in December it was 3.3%). In order to keep inflation under control, monetary policy remained restrictive: in June 2008 the reference interest rate was at 6%. However, by the end of the year interest rates were brought down. In December, the central interest rate was cut down to 5%.

Housing and mortgage markets

In 2008, over 165,000 dwellings were completed (representing a 23.5% increase in comparison with 2007). The number of building permits issued in 2008 amounted to over 220,372, half of which were for individual investors. At the end of December 2008, about 687,400 dwellings were under construction.

In 2008 the trend in prices which was observed since the second half of 2007 continued. Prices – especially in big cities - started to fall, although this decrease remained moderate. Further decreases are expected even though the availability of housing remained very limited: in biggest cities, the number of square metres of housing available for an average monthly salary was about 0.4.

At the end of December 2008 there were around 1.3 million mortgage credit agreements outstanding. In 2008 about 286,000 new residential mortgage loans were granted (a decrease of 9% on 2007). At the end of December 2008 Polish households` residential debt amounted to 192 billion Zlotys (56.5 billion Euros), which constituted an increase of 57% in comparison with December 2007. It must be stressed, however, that growth in the outstanding portfolio was in part a result of the depreciation of the Zloty, as about 50% of the portfolio are CHF-denominated loans. The new mortgage lending in 2008 amounted to 57.1 billion Zlotys (15.1 billion Euros).

In the second half of 2008 the majority of banks tightened their credit policy. Firstly, the supply of foreign currency-denominated loans was constricted, then the banks restricted their lending criteria also with regard to zloty-denominated loans. In the last quarter of 2008, 85% of Polish banks tightened their credit policy, and 90% of them lowered their maximum LTV ratios. All banks imposed higher margins on residential loans, and 5% of them - imposed additional requirements regarding collateral.

In December 2008 the Committee for Banking Supervision issued the "Recommendation S II concerning good practices regarding mortgage-secured credit exposures", which imposed additional[41] requirements for banks granting foreign currency-denominated mortgages, so that they must inform the client on the level of foreign currency spread they are exposed to, and inform the client about how this influences the monthly payment they are liable for; in addition, the customer will be granted the possibility to pay the installments directly in a foreign currency.

Funding

Access to funding became the main problem for Polish banks in 2008. The greater share of the credit portfolio is funded through deposits, which although showing signs of continued growth, were not sufficient to cover increasing funding needs. To some extent, the problems in accessing funding capital restricted the volume of new mortgage lending.

As in previous years, covered bonds issuance did not make up the shortfall in funding for Poland. New issuance decreased by about 4% in comparison with 2007 (new issuance in 2008 amounted to 197 million Euros). There were no securitisation transactions on the Polish market in 2008.

	EU27, 2008	Poland, 2008	Poland, 2007
GDP growth	0.8%	5.0%	6.6%
Unemployment rate	7.0%	7.1%	9.6%
Inflation	3.7%	4.2%	2.6%
% owner occupied	66.8%	75.0%	75.0%
Residential Mortgage loans as % GDP	49.8%	15.6%	11.7%
Residential Mortgage loans per capita, € 000s	12.24	1.48	0.94
Total value of residential loans, € million	6,087,928	56,476	35,966
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	7.1%	5.9%
Outstanding Covered Bonds as % of residential lending	21.2%	1.0%	1.9%

Sources: EMF, EUROSTAT, ECB, Central Bank of Poland, National Statistics Office

Notes:

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

[41] The previous "*Recommendation S* I" was introduced in July 2006. It encouraged the banks to offer mortgages mainly in Zloty and, in case a customer opted for a foreign-denominated mortgage, the capacity of FX loan applicants was calculated against 120% of the value of the loan requested and the typical interest rate in the domestic currency loans was applied. The bank was also required to present to the client a detailed information about risks associated with a foreign-denominated mortgage, together with the calculation of the installment of FX loan assuming that:
1) the exchange rate can increase by a rate which corresponds to the maximum difference observed within the last 12 months
2) the interest rate will increase by the level of the difference between the max and minimum level of rates within the last 12 months, which was also applied to Zloty-denominated loans (so that the customer could compare the two loans)
3) both rates (Zloty and foreign-denominated) will increase by 400 basis points

Portugal

By Jesus Martins, Caixa Economica Montepio Geral

Macroeconomic overview

The strong decline in investment and exports associated with the international financial and economic crisis were among the factors behind the stagnation of the Portuguese economy: real GDP growth rate in 2008 was flat.

The above-mentioned factors also explained relatively high unemployment levels, at 7.7%, although this represented a slight decrease from 8.1% in 2007.

The inflation rate has declined dramatically, reaching 0.8% at the end of 2008. This was due to the sharp contraction in economic activity, the reduction in the price of commodities and increased unemployment. Average inflation in 2008 was 2.7%.

Despite the ECB`s repeated cuts in its central interest rate, mortgage interest rates in Portugal showed marked declines only in the first quarter of 2009, due to the time lag in the transmission mechanism.

Housing and mortgage markets

At the end of 2008, the total stock of mortgage lending was 105,210 million Euros, which represented an annual increase of 4.1%. This was a slowdown in comparison with the 10% increase recorded in 2007, driven by factors related to the international crisis, which severely impacted families and businesses and had a negative effect on unemployment.

This negative scenario is also reflected in other housing and mortgage market indicators which recorded a contraction in activity over the previous year. In 2008, gross residential lending decreased by 31.1% on 2007 and the residential house price index fell by 6% (according to the Bank Evaluation on Housing published by the Statistical Institute of Portugal, INE).

The ratio of non-performing loans to total mortgage credit increased over the previous year. The ratio of all non-performing loans (residential and commercial) to total credit also went up from 1.86% in the first quarter of 2008 to 2.17% in the last quarter of the year. At the end of 2008, the ratio of non-performing loans to mortgage credit was 1.5%.

Three important legislative measures were taken during 2008. The Aviso n.º 10/2008, released by the Bank of Portugal, contained detailed rules which financial institutions are obliged to comply with when promoting and selling mortgage products.

Moreover, the *Decreto Lei n.º 88/2008* requires financial institutions to use the 360 days market convention in order to calculate both the interest and the rate to apply for mortgage credit.

Finally, the *Decreto Lei n.º 171/2008* seeks to eliminate barriers to the renegotiation and transfer of mortgage credit. It contains a rule which bans the collection of any fees associated with the renegotiation of mortgage credit.

In 2008, deposits continued to constitute the main funding tool for mortgage credit.

Outstanding mortgage bonds amounted to 15,270 million Euros in 2008, which represented a growth rate of 94.5% on 2007. Total mortgage-backed securities outstanding in 2008 amounted to 14,411 million Euros, which was an increase of 5.1% on 2007.

The savings rate of individuals as a share of disposable income was 6.5% (6.2% in 2007).

	EU27, 2008	Portugal, 2008	Portugal, 2007
GDP growth	0.8%	0.0%	1.9%
Unemployment rate	7.0%	7.7%	8.1%
Inflation	3.7%	2.7%	2.4%
% owner occupied	66.8%	76.0%	76.0%
Residential Mortgage loans as % GDP	49.8%	63.3%	62.1%
Residential Mortgage loans per capita, € 000s	12.24	9.91	9.52
Total value of residential loans, € million	6,087,928	105,210	101,094
Annual % house price growth	0.3%	-6.3%	-1.2%
Typical mortgage rate (Euro area)	5.5%	5.9%	5.7%
Outstanding Covered Bonds as % of residential lending	21.2%	11.5%	7.8%

Source: EMF, EUROSTAT, ECB, Bank of Portugal

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Portugal= 2007*

Romania

By Sergiu Oprescu, Alpha Bank Romania

Macroeconomic overview

2008 was the ninth consecutive year of positive economic growth during which real GDP grew by 7.1%. The negative effects of the international financial crisis only affected GDP growth in the last quarter of 2008, when the economy grew by 2.9% in real terms compared to the same quarter of 2007 which saw growth at 8.2%. Significantly, year-on-year GDP growth recorded in the fourth quarter outpaced average growth of both the Euro area countries (which declined by 1.2%) and EU27 countries (which decreased by 1.1%). The slowdown in the fourth quarter was mainly due to the decline in industrial production and domestic consumption.

The unemployment rate was 5.8% in Q4 2008, higher than in Q3 2008 by 40 basis points but still below the unemployment rate in Q4 of 2007 (6.4%).

The inflation rate decreased to 6.3% by end 2008 from 6.6% in December 2007, exceeding the targeted inflation band of 3.8% to 4.8% but remaining below the central bank's forecast of 6.7%. Annual average inflation was 7.9%, 3 points above the 2007 level (4.9%).

Average interest rates in the domestic currency rose throughout the year. Also passive interest rates in Euro increased, while active interest rates remained relatively stable.

Housing and mortgage markets

Homeownership is traditionally high: currently at 97%. The number of residential completions in 2008 was 36% higher than in 2007; up from 47,299 in 2007 to 64,414 in 2008. Starts totalled 143,139 and the number of building permits issued was 61,092 or 8% higher than 2007 which saw 56,618 permits issued.

The number of transactions decreased to 484,000 in 2008 from 521,000 in 2007.

There is no official data available regarding the evolution of national average house prices. Anecdotal evidence indicates that in 2008 house prices reached their highest peak since 1990. However, by year-end prices began to decline.

In 2008, outstanding mortgage debt totalled 20.899 million RON (5,485 million Euros) which represented a 28.7% increase over 2007.

The average interest rate for a new mortgage loan denominated in Euro was higher in 2008 than in 2007; (6.46% in 2007 and 7.03% in 2008). Lending rates increased because of severely constrained liquidity.

Lenders began tightening underwriting during 2008. The average Loan-to-Value ratio decreased from 75.2% in Q2 to 70.9% in Q3 and then to 70.7% in Q4.[42]. The ratio of delinquent loans to total outstanding mortgage credit has increased from 0.22% in 2007 to 0.35% in 2008.

In 2008, the domestic mortgage market became quite competitive, and lenders tried to find innovative ways to sell their mortgage loans. Until Q3 2008, the market was characterised by a range of mortgage products including adjustable interest rate and fixed interest rate loans with a grace period. Other products included various teaser-rate schemes to make first year payments affordable. Most of the products were dropped by the end of 2008.

Funding

In 2008, 92.0% of the mortgage loans in the domestic market were foreign-currency denominated. The mortgage loans denominated in foreign currency were cheaper than the mortgage loans denominated in domestic currency and therefore, allowed borrowers to finance larger amounts. Most of the mortgage funding comes from deposits and capital from private financial institutions.

	EU27, 2008	Romania, 2008	Romania, 2007
GDP growth	0.8%	7.1%	6.2%
Unemployment rate	7.0%	5.8%	6.4%
Inflation	3.7%	7.9%	4.9%
% owner occupied	66.8%	97.0%	97.0%
Residential Mortgage loans as % GDP	49.8%	4.0%	3.5%
Residential Mortgage loans per capita, € 000s	12.24	0.25	0.20
Total value of residential loans, € million	6,087,928	5,485	4,262
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	7.0%	6.5%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, EUROSTAT, ECB, Central Bank of Romania, Romanian Institute of Statistics

Notes:

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

[42] National Bank of Romania, *The lending activity of legal entities and individuals*, May 2009.

Slovakia

By Miroslava Mitkova, Hypocentrum Slovakia

Macroeconomic overview

Economic growth began to slow in the second half of 2008. In the fourth quarter of 2008 real GDP increased as much as domestic demand, recording an annual increase of 2.8%. Between 2007 and 2008 the annual GDP growth rate slowed, moving from 10.4% in 2007 to 6.4% in 2008. The unemployment rate, after a long period of decline, rose in 2008 ending the year at 8.4%. Inflation rate measured as HICP increased ending the year at 3.5% or an annual average of 3.9%. The National Bank of Slovakia responded to changes in the world financial markets by lowering its key interest rates three times decreasing it from 4.25% to 2.50%.

The end of the year was dedicated to preparations for entering the Euro area on January 1st, 2009. The final SKK/EUR exchange rate was fixed at 30.126 SKK in mid 2008, preventing any significant devaluation.

Housing and mortgage markets

In 2008 housing starts totalled 28,321 units and completions of apartments totalled 17,184 units. The number of apartments completed in 2008 increased by 711 apartments, recording an annual increase of 4.3%. Again, this was the highest increase since 1991.

Property prices were at record highs at the beginning of 2008. Growing property prices were driven by enormous demand, as well as speculation. During the second quarter of the year, the real estate market cooled. Banks tightened mortgage underwriting standards and consumers became hesitant to purchase in an economic climate of uncertainty. While there were decreases of up to 20.0% in resale homes, overall average home prices did not decrease appreciably in 2008.

Although the volume of residential mortgages increased, their share of GDP was still relatively low in comparison with the rest of the EU27. The total volume of outstanding residential mortgages in 2008 was 8,536 million Euros. Demand for mortgages rapidly declined in 2008. The weakest period for new mortgage loans was recorded in November and December. Further impacting mortgage production was the cessation of new mortgage applications approval from mid-December though the end of the year; this was due to the conversion of banking systems from SKK to Euro.

The typical mortgages offered in Slovakia are fixed rate with terms primarily of 1 and 5 years; other terms are, however, available including 2, 3 and 10. The average mortgage interest rate in 2008 was 6.20%. Due to increasing property prices during 2006, 2007 and the first quarter of 2008, mortgage banks began offering high LTV (up to 120%) mortgages. Average payment to income ratio was 33.3%.

Because of increasing delinquencies the majority of Slovak banks, in the second half of 2008, tightened underwriting criteria which included lowering average LTVs to 70 – 90%. Defaulted loans increased annually by 35.0% on 2007. Defaulted mortgage loans total approximately 4.0% of the total volume of loans provided to individuals. Loans provided in the past years, especially in 2007, have experienced higher than average credit problems most likely caused by high LTV lending.

Moreover, some banks stopped offering "no proof of income" mortgages and other risky loan products.

Young borrowers can apply for a payment subsidy from the government. The subsidy was introduced in 2007 initally providing a 1.5% subsidy from the government and an additional 1.0% subsidy from the lending institution. In 2008 the payment subsidy was increased by 2.5%.

Funding

Funding of commercial bank lending comes primarily from deposits. However, capital market funding has become a more important part of the mortgage sector. The volume bond issuance increased by 7.9%, reaching 4 billion Euros in 2008. Out of that amount, 83% were mortgage bonds. Most mortgage bonds were issued between April and August 2008 totalling 843 million Euros.

The preparations for the adoption of the Euro contributed to an increase in deposits at private banks. Loan to deposit ratio decreased to 79% thanks mainly to a considerable increase in deposits recorded in November and December.

	EU27, 2008	Slovakia, 2008	Slovakia, 2007
GDP growth	0.8%	6.4%	10.4%
Unemployment rate	7.0%	9.5%	11.1%
Inflation	3.7%	3.9%	1.9%
% owner occupied	66.8%	88.0%	81.0%
Residential Mortgage loans as % GDP	49.8%	13.2%	11.9%
Residential Mortgage loans per capita, € 000s	12.24	1.58	1.21
Total value of residential loans, € million	6,087,928	8,536	6,529
Annual % house price growth	0.3%	n/a	24.0%
Typical mortgage rate (Euro area)	5.5%	6.2%	6.2%
Outstanding Covered Bonds as % of residential lending	21.2%	42.3%	n/a

Source: EMF, Eurostat, ECB, National Bank of Slovakia, Slovak Statistical Office, Ministry of Construction and Regional Development of the Slovak Republic

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Slovakia= 2008*

Slovenia

By Andreja Cirman and Srna Mandič, University of Ljubljana

Macroeconomic overview

GDP growth in 2008 remained higher than the EU27 average ending the year at 3.5%. Despite this relatively strong growth, it was much lower than 2007, which closed the year at 6.8%. Similar trends were seen in other economic indicators. The robustness of the economy was in part a result of large levels of infrastructure investment. Per capita income is now approximately 93% of the EU27 average.

The country ended 2008 with an annual average inflation rate (Harmonized Index of Consumer Prices) of 5.5%. This is a higher level than previous years; 2006 recorded 2.5% and 2007 recorded 3.8% rates of inflation. According to the national statistical office, unemployment from 2006 through the end of 2008 has steadily trended downward; average annual unemployment for the years 2006, 2007 and 2008 were 6.0%, 4.9% and 4.4% respectively.

Housing and mortgage markets

In 2008, the total housing stock was 830,000 units. Approximately 82% of the housing stock was owner-occupied giving Slovenia one of the highest homeownership rates in the EU27.

Housing construction has been robust with the number of completions increasing over the previous year since 2000. 2008 ended with a nine-year high of approximately 10,000 completions. Despite this record, the second half of 2008 saw a sharp decline in housing starts. Starts totalled approximately 7,000 units in 2008 down from 11,000 in 2007. In addition, applications for building permits decreased in 2008 to 7,500 from 9,500 in 2007.

After a long period of increasing house prices, the housing market in 2008 recorded annual decreases in property prices of 2.9 % for second-hand dwellings and 3.0% for new dwellings.

In 2008 gross residential mortgage lending totalled 672 million Euros. Mortgage debt outstanding as a percentage of GDP was 9.1% in 2008 and 8.0% in 2007. Most lending was done at a variable rate. In 2008 47.7% of mortgages were tied to EURIBOR, 30.4% tied to LIBOR in CHF and 19.0% are fixed.

In 2008, the spread increased on all new mortgages. By year-end 2008 the average effective interest rate was 7.03% in 2008. In December 2008 the spread on EURIBOR indexed mortgages was 54 basis points higher than the year-end 2007 spread. The spread on the LIBOR loans 130 basis points higher than year-end 2007.

In 2008 banks recorded an increase in non performing loans which peaked in the fourth quarter, Bad loans as a proportion of classified claims rose by 0.2% on the previous year to 1.8%. Lenders have responded to the increase in non performing loans by increasing impairment charges and tightening underwriting; including reducing the average LTV on mortgages. The average Loan-to-Value (LTV) on new housing loans decreased from 60.5% at the end of 2007 to 52.0% at the end of 2008[43].). Payment-to-income (PTI) ratios were also reduced in 2008. The proportion of loans with PTI equal or above 33% of personal income decreased from 58.0% in 2007 to 52.6% in 2008.

Funding

Mortgages are funded primarily by deposits and to a lesser extent by issuing corporate debt (which is sold primarily to foreign investors). Although legislation exists that allows banks to issue mortgage-backed securities, no transactions have been completed.

The gap between investment and savings as a proportion of GDP widened further in 2008, requiring continued borrowing in the form of foreign loans. Net financial liabilities to the rest of the world increased to 30.0% of GDP The financial turmoil in autumn 2008, reduced confidence in the financial markets and the resulting loss of liquidity resulted in the curtailment of lending by commercial banks.. The saving rate as a ratio of gross saving to gross disposable income was 28.2 % in 2007 but declined to 27.2 % in 2008.

	EU27, 2008	Slovenia, 2008	Slovenia, 2007
GDP growth	0.8%	3.5%	6.8%
Unemployment rate	7.0%	4.4%	4.9%
Inflation	3.7%	5.5%	3.8%
% owner occupied	66.8%	82.0%	82.0%
Residential Mortgage loans as % GDP	49.8%	9.1%	8.0%
Residential Mortgage loans per capita, € 000s	12.24	1.68	1.32
Total value of residential loans, € million	6,087,928	3,395	2,670
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	6.9%	6.3%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, Eurostat, ECB, Bank Of Slovenia, Statistical Office of Slovenia

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Slovenia= 2008.*

[43] *Bank of Slovenia, Financial Stability Report, 2008, 2009.*

Spain

By Irene Peña and Lorena Mullor, Spanish Mortgage Association

Macroeconomic overview

The performance of the Spanish economy in 2008 showed a sharp deceleration which resulted from the combination of internal economic adjustments and the global financial turmoil.

Real GDP growth was 0.9%, compared to 3.6% in 2007. The domestic demand components that most contributed to GDP growth over the last years – consumption and private fixed investment- both recorded negative growth, and the only positive contribution to growth came from government spending and net external demand.

As regards inflation, the initial increase in the Harmonised Index of Consumer Pricesat slowed down during the year; at the end of 2008 it had increased year-on-year by a mere 1.4%, compared to 2.8% in 2007 (though the yearly average inflation was at 4.1%), mainly due to the behaviour of energy prices and the waning of both external and internal demand.

Against this new scenario characterised by a clear correction from record growth in previous years, the level of unemployment rose dramatically. At the end of 2008 the unemployment rate reached 14% (11.3% as a yearly average) and the data available for the first quarter of 2009 points to a further increase during the year.

Housing and mortgage markets

As regards real estate activity, the volume of housing starts, which had been slightly decreasing over the the last few years, fell by 41.5%% in 2008 and remained far below the number of completions, showing a large adjustment in the production of new dwellings as a response to the current drop in housing demand. The annual growth rate of the amount of total transactions in 2008 fell by 32.6%, compared to the much lower decrease recorded in the previous year (-12.4%).

Average house prices still recorded a year-on-year increase on the previous year (0.7%), but there was a clear slowdown in comparison with 2007 (5.8%) and it also should be pointed out that the slowdown in annual growth rates in house prices has continued since 2004. According to official statistics, during the first quarter of 2009 house prices decreased on a year-on-year basis by almost 7%.

Throughout 2008, the intensity of the correction in the real estate markets and the worsening of international economic conditions impacted the Spanish mortgage market.

Nevertheless, in 2008 the mortgage lending market recorded a higher growth rate than the whole economy, and it recorded positive monthly developments despite the large drops in both volumes and number of new mortgage loans subscribed.

At the end of December 2008, total mortgage volume outstanding (residential and commercial) was 1,088,946 million Euros, which represented 100% of GDP. In relative terms, the year-on-year increase was 4.0%. As regards residential lending alone, the increase at the end of the year was slightly higher (4.3%).

These positive growth rates were possible due to the significant volume of new lending, which compensated the negative effects of repayments on the mortgage portfolio.

Indeed, in 2008, around 971,000 mortgage loans were subscribed amounting to 188,000 million Euros (residential and commercial), so that new lending activity remained at similar volumes to those recorded in 2003-2004 when the housing boom started.

As regards interest rates, after reaching a peak in the three first quarters of 2008, the reference indexes of the Spanish market dropped markedly in the last quarter of the year. Interest rates for new mortgage loan contracts continued to decrease slightly also in the first quarter of 2009.

There is no doubt that the decrease in the reference indexes in the Spanish market is going to have a huge positive impact on households' budget during this year, since borrowers will face lower mortgage instalments than in previous years, and even lower than those they initially paid when they subscribed their loans.

However, the high level of interest rates reached during the last three years has led to a rise in the share of doubtful residential mortgage loans to households, from around 0.4% in 2005 up to more than 2% in 2008.

So far, arrears in residential mortgage loans have strongly increased as a consequence of the higher interest risk in the Spanish mortgage market, where more than 90% of the mortgage portfolio was at variable rates, and mainly referenced to an index (12-month Euribor) which is particularly sensitive to changes in the ECB's monetary policy.

Finally, as far as changes in housing policy are concerned, in the framework of the coordinated actions undertaken at the EU level, the Government of Spain, in collaboration with the Autonomous Administrations and other national institutions, implemented in 2008 a set of measures aimed at:

- Restoring confidence in the market;
- Overcoming the funding problems;
- Supporting the segments of society who were most affected by the worsening of the economy.

As far as the first two objectives are concerned, the government raised the deposit guarantee fund from 20,000 Euros to 100,000 Euros per depositor, and also set up a scheme for the purchase of high-quality assets (Fondo de Adquisición de Activos Financieros) and provided a public guarantee for new debt issued by credit institutions.

With regard to the third objective, the Spanish government approved a mortgage moratorium for the benefit of certain categories (for example, people who have recently lost their jobs, or self-employed who have been forced to stop their economic activity, and so on).

This measure consists in postponing (for a period of up to two years) 50% of the amount of the monthly mortgage instalments, up to a maximum of 500 Euros per month, for those mortgage loans which were signed before the 1st September 2008 and that do not exceed the total amount of 170,000 Euros. The government will assume a portion of the risk of default from these operations.

Funding

At the end of 2008, the share of the mortgage securities as a percentage of the total mortgage portfolio was around 45%. The total value of outstanding mortgage covered bonds ('cedulas hipotecarias') and Mortgage Backed Securities was 492,222 million Euros, which represents an annual growth of 25% in comparison with 2007. The new issues of mortgage securities accounted for 120,423 million Euros (which represented an increase of 8.0% on 2007).

As regards the breakdown of new issues, the percentage of 'cédulas hipotecarias' in the total volume of mortgage securities decreased from 24.4% in 2007 to 11.8% in 2008, while the share of mortgage backed securities (MBS) increased.

The progressive change in the breakdown of new issuances of mortgage securities was mainly due to the liquidity problems in the markets that have led credit institutions to use the MBS as the main collateral in their funding transactions.

	EU27, 2008	Spain, 2008	Spain, 2007
GDP growth	0.8%	0.9%	3.6%
Unemployment rate	7.0%	11.3%	8.3%
Inflation	3.7%	4.1%	2.8%
% owner occupied	66.8%	84.5%	87.1%
Residential Mortgage loans as % GDP	49.8%	62.0%	61.4%
Residential Mortgage loans per capita, € 000s	12.24	14.89	14.51
Total value of residential loans, € million	6,087,928	674,434	646,676
Annual % house price growth	0.3%	0.7%	5.8%
Typical mortgage rate (Euro area)	5.5%	5.6%	5.1%
Outstanding Covered Bonds as % of residential lending	21.2%	46.7%	41.3%

Source: EMF, EUROSTAT, ECB, Bank of Spain, Ministry of Housing, Instituto Nacional de Estadistica, AIAF, European Securitisation Forum

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Spain= 2008*

Sweden

By Christian Nilsson, Swedish Banking Association

Macro-economic overview

Real GDP fell by 0.2% in 2008. In actual fact, GDP growth was positive during the first three quarters in 2008, but a negative fourth quarter at - 4.8% caused an annual GDP drop. The unemployment rate remained relatively unchanged at 6.2% compared to 6.1% a year earlier. However, unemployment figures are expected to increase considerably during 2009 and 2010.

In 2008, the first three quarters saw a comparably high inflation, between 3-4%. In November and December the inflation rate was lower. Sweden's recorded inflation for 2008 was 3.3%.

The Swedish Central Bank raised its central interest rate several times in 2008. Though from October onwards monetary policy turned expansionary. The repo rate peaked in September at 4.75% and was then lowered to 2.0% by the end of December 2008.

Housing and mortgage markets

The number of housing starts decreased by around 20.9% from the previous year (22,000 units in 2008 againts 28,100 units in 2007). Housing completions though, increased on a year-on-year basis; in 2008 (33,200 units were completed against 30,500 units in 2007, producing a 8.9% increase).

Housing demand in 2008 remained at relatively high levels due to the favourable dynamics in young household formation and immigrants entering the market, but also due to a high inward migration. There were few vacancies among rented apartments and many municipalities reported housing shortages.

Price increases on tenant owned apartments and single family homes slowed down during 2008 and prices even fell slightly during the fourth quarter.

Residential construction costs increased by 5.0% in 2008; this was a lower growth rate than what was recorded in 2007 (6.3%).

The demand for mortgages remained comparably high during 2008. Although 2008 values cannot be compared to earlier figures – due to a change in the statistical source of mortgage lending data – it is estimated that the total value of outstanding loans from mortgage institutions (expressed in SEK) increased by 9.1% on the previous year.

The majority of household loans were taken out to finance house purchases and more than 85% of the household loan stock had property as collateral (mortgage loans). Mortgage institutions provided the greatest part of the loans, while a minor part of the loans was granted by banks in the form of second mortgage loans and also other types of loans. It was also reported that during 2008 banks and mortgage institutions had adopted more restrictive Loan-to-Value ratios and had tightened their lending criteria and granted fewer interest-only loans than in previous years.

Variable interest rate on mortgages reached 3.6% at the end of 2008 compared to 4.8% one year earlier. Fixed interest rate between 1 and 5 years decreased to 4.2% at the end of 2008 compared to 5.2% at the end of 2007.

According to data from the mortgage institutions, non-performing loans indicators in 2008 showed that the number of defaults and share of doubtful loans are still at historical lows.

[49] Tenant-owned apartments are flats in a housing association/cooperation. From a legal point of view,the housing association is the owner of the building and of the apartments in it. The resident of a tenant-owned apartment is a member of the housing association according to his/her owning share and has the apartment at his/her disposal. Tenant owned apartments are traded on the open market.

Due to the international financial crisis, in late 2008 the Swedish Government introduced a plan to stabilise the Swedish Financial Market. Among other measures, the deposit guarantee was increased to SEK 500,000 (approximately 50,000 Euros), the Government also set up a guarantee scheme of up to SEK 1,500 billion to support medium-term financing needs of banks and mortgage institutions. Moreover, a stabilisation fund will be set up in order to manage potential solvency problems in any Swedish institutions, providing the possibility to obtain a state capital injection.

Funding

Covered bonds are the main funding source in the Swedish mortgage market. The value of outstanding mortgage covered bonds at the end of 2008 was 126 billion Euros.

A new mortgage bond which came into effect on July 1, 2004 has introduced directly collateralised bonds (covered bonds), the underlying assets of which consist of mortgage loans and loans to central, regional or local governments located within the EEA. By the end of 2008, all of the former mortgage bonds had been converted into covered bonds.

	EU27, 2008	Sweden, 2008	Sweden, 2007
GDP growth	0.8%	-0.2%	2.6%
Unemployment rate	7.0%	6.2%	6.1%
Inflation	3.7%	3.3%	1.7%
% owner occupied	66.8%	52.0%	50.0%
Residential Mortgage loans as % GDP	49.8%	60.6%	57.0%
Residential Mortgage loans per capita, € 000s	12.24	21.68	20.71
Total value of residential loans, € million	6,087,928	199,055	190,245
Annual % house price growth	0.3%	2.9%	10.7%
Typical mortgage rate (Euro area)	5.5%	3.6%	4.8%
Outstanding Covered Bonds as % of residential lending	21.2%	63.5%	48.7%

Source: EMF, Eurostat, ECB, Statistics Sweden

Notes:

- Please note that, due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with the earlier figures; please also note that the 2008 value of outstanding residential lending expressed in Euros was largely affected by the devaluation of the Swedish Krona (SEK) against the Euro during the year;
- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Sweden= 2007*

United Kingdom

By James Tatch, Council of Mortgage Lenders

Macroeconomic Overview

The UK has not been immune to the global financial crisis and associated economic implications. The UK economy shrank for three successive quarters from Q2 2008 onwards, confirming an expected period of recession. Alongside the economic contraction unemployment also rose, from 5.2% at the start of the year to 6.3% in December 2008. At the end of 2008 there were around 2 million unemployed, and this is forecast to rise to 3 million by the end of 2009.

Inflation also rose in 2008. Having fallen in the latter part of 2007, it then rose steadily through Q3 2008 to well above the target range of 1 to 3%, peaking at 5.2% in September. However, because this relatively high inflation was largely the result of the spike in energy prices it was temporary in nature. This allowed the Bank freedom to respond to the ongoing financial crisis and its spread to the wider UK economy, by lowering interest rates progressively throughout 2008, from 5.5% in January to just 2% in December – a historic low. Since then rates have fallen further, to just 0.5%.

Housing and mortgage markets

Having reached a record high of £363 billion (533 billion Euros) in 2007, gross mortgage lending dropped sharply in 2008, down 29% to £253 billion (316 billion Euros). In the early part of the year this drop-off was primarily supply-driven. With the private securitisation market remaining closed for business, funding for mortgage lending was severely restricted. A large number of lenders either significantly cut back or ceased accepting new business entirely. And those still taking on material volumes of new lending tightened lending criteria, particularly with respect to maximum LTVs. But as the crisis continued and spread to the wider economy, consumer confidence in the housing market deteriorated leading to reduced demand for mortgages.

Whilst confidence in the housing market fell away, and with it house purchase transaction numbers, remortgaging activity proved relatively resilient for most of the year. By Q3 2008 remortgaging accounted for fully one half of total gross lending, supported by large numbers of borrowers coming off fixed rate deals which were taken out at comparatively low interest rates two and three years previously. However, later in the year remortgaging dropped sharply as many potential borrowers could not meet tighter lending criteria, with others finding that, following the bank rate cuts throughout the year, remaining on the reversion rate was in fact the most attractive option.

Buy-to-let lending held up relatively well in initial months of 2008. But with its greater reliance on wholesale markets, buy-to-let has since been disproportionately affected by the credit crisis, with many lenders exiting this market entirely, at least until funding lines return. By Q4 2008, buy-to-let gross lending had shrunk by two thirds.

House prices fell in 2008, for the first time since the early 1990s. The rate of decline accelerated throughout the year. The precise extent of house price falls varies according to the measure used. The DCLG Index (released by Department of Communities and Local Government) fell by 0.9% on an annual basis, but the more timely indicators (those from Nationwide and Halifax, both based on mortgage approvals data) estimate the annual rate of decline had fallen to nearly 20% by December 2008.

Affordability indicators – typical Loan-to-Value (LTV) and income multiples – fell significantly throughout 2008. But rather than an easing of borrower affordability this reflected a tightening of lending criteria, most notably on LTVs, in the face of falling house prices and the ongoing credit crisis. The number of mortgage deals available at higher LTVs – 90% and above – has fallen dramatically over the course of the year, and those that remain are relatively more expensive. As a result, only those with substantial deposits are able to enter the market. Even with rapidly falling house prices the typical first-time buyer had to put down almost £30,000 (equal to 35,714 Euros) deposit money in December 2008, double the amount needed at the beginning of the year.

At the end of 2007 about 180,000 mortgages in arrears acccounted for 2.5% or more of the mortgage balance, a 43% rise on 2007. This equates to around 1.6% of all mortgages. 40,000 mortgage properties were repossessed in 2008, 54% up on 2007 and the highest number in over a decade. The growth in arrears and possessions reflects both rising unemployment and a high level of overall indebtedness amongst consumers (across both secured and unsecured lending). The ongoing funding crisis has reduced the ability to consolidate and manage debt, meaning that struggling households have fewer coping strategies. In this environment, it is inevitable that both arrears and possessions will rise further.

Funding

With the private securitisation market remaining closed, the UK government and the Bank of England have introduced a range of measures aimed at stabilizing the financial system, meeting lenders' wholesale funding requirements and freeing up credit to consumers and businesses. In the wake of the collapse of Lehman Brothers on 15 September, the Bank extended its special liquidity scheme (SLS), where banks and building societies could swap illiquid assets, including AAA rated mortgage backed securities, for UK Treasury Bills, until January 2009. The Treasury then introduced the credit guarantee scheme (CGS) whereby lenders could issue bonds with a government guarantee attached, as well as injecting capital to key banks.

In January 2009 the UK government announced that it would be consulting on the details for an asset backed securities (ABS) guarantee scheme, to directly stimulate the securitisation market. The scheme was finally announced in the budget and will allow banks and building societies to issue residential mortgage backed securities (RMBS) with a maximum term of either 3 or 5 years with either a credit guarantee or a liquidity guarantee from government. The guarantees will apply only to AAA-rated tranches and government will have recourse to the sponsoring lender as well as the mortgage pool. In January the government also introduced the asset protection scheme (APS) to insure banks against extreme losses on their assets of uncertain value, and the Asset Purchase Facility (APF). Under the APF the Bank is authorized to buy high quality private sector assets, including asset-backed securities but the scheme has to date been aimed exclusively at the corporate debt market.

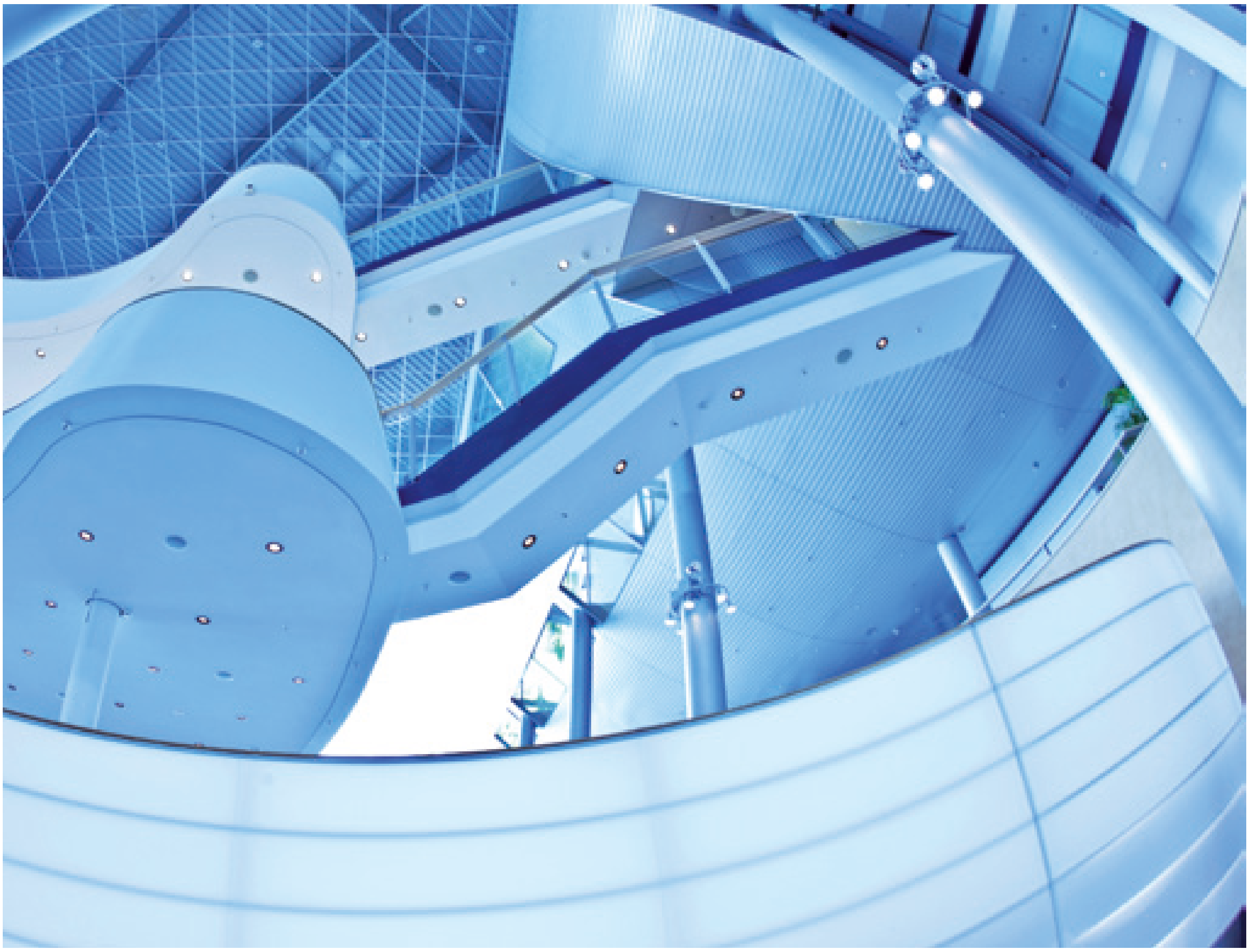
The Bank has also embarked on a programme of quantitative easing to increase the level of wholesale deposits in the banking system to offset the deleveraging process which has seen financial firms under pressure to shrink their balance sheets. To date, lending remains severely constrained, and all current government measures of support remain closed to specialist (non deposit-taking) lenders. Prior to the credit crisis specialist lenders accounted for a significant share of new mortgage lending, but this has since has dwindled away to negligible levels while banks and building societies have also experienced reduced appetite to lend.

	EU27, 2008	UK, 2008	UK, 2007
GDP growth	0.8%	0.7%	3.0%
Unemployment rate	7.0%	5.6%	5.3%
Inflation	3.7%	3.6%	2.3%
% owner occupied	66.8%	59.0%	59.0%
Residential Mortgage loans as % GDP	49.8%	80.5%	86.3%
Residential Mortgage loans per capita, € 000s	12.24	23.84	28.76
Total value of residential loans, € million	6,087,928	1,458,895	1,745,906
Annual % house price growth	0.3%	-0.9%	10.9%
Typical mortgage rate (Euro area)	5.5%	5.8%	5.8%
Outstanding Covered Bonds as % of residential lending	21.2%	12.9%	4.7%

Sources: EMF, Eurostat, ECB, Bank of England, Council of Mortgage Lenders, Communities and Local Government

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. UK= 2008*



Iceland

By Magnus Arni Skulason, Reykjavik Economics EHF

Macroeconomic overview

In real terms, Icelandic GDP grew by only 1.3% in 2008, compared to 5.6% in the previous year and 4.3% in 2006. The slower economic growth was due to a reversal in developments in foreign trade. 2008 was a year of meltdown for the Icelandic banking system, with severe consequences for the economy as a whole. The average nominal GDP per capita in 2007 was 47,708 Euros, but dropped to 36,274 Euros in 2008 and is expected to drop even further in 2009 (at the current exchange rate).

The estimated current account deficit reached a peak of 42.2% of GDP in 2008, which can be explained by a massive increase in the income account deficit of 577.1 billion ISK (3.4 billion Euros on year end exchange rate). The fall of the Icelandic krona against the Euro by 86.4% caused inflation to pick up (12.4% as a yearly average) because of Iceland's dependence on imported goods. The exchange rate with the Euro registered by the Central Bank of Iceland was at 91.2 Euro/ISK at end of 2007 compared to 169.97 Euro/ISK at end of 2008. Inflation was 12.4% on average, which was the highest increase recorded over the last 19 years; it is expected to remain at similar levels on average in 2009. Similarly, foreign currency-indexed mortgages have heavily increased the debt burden of households and companies. Loans in low-interest currency baskets such as Swiss Franc and Japanese Yen, and also loans denominated in other currencies were quite common in the commercial lending business. Foreign denominated mortgages also gained popularity among households and amounted to approximately 9.0% of total outstanding mortgages at end of 2008 and around 21% of the total household debt. These loans have heavily increased the debt burden and increased arrears by households.

Between late September and early October the stock market crashed, and the three major banks were taken over by the Icelandic Financial Supervisory Authority as the stock market lost 94.3% of its value. The OMX Iceland-15 index dropped from 6,144 at end of 2007 to 345.5 at end of 2008, thereby causing a big loss both for pension funds and investors. Moreover, households lost considerable sums of money in market funds.

Unemployment jumped in the last quarter of 2008 from 1.9% in the fourth quarter of 2007 to 4.0% in the fourth quarter of 2008. Unemployment is expected to reach 8.6% in 2009, an unprecedented number in the history of Iceland. In the first quarter of 2009 the unemployment rate was 7.1%.

The policy rate of the Central Bank of Iceland reached 18.0% in November 2008, starting from a very high rate of 13.8% percent at the beginning of the year. The Central Bank's rationale for such high interest-rates policy was to try to keep the exchange rate stable especially in consideration of carry trade investors who had been speculating on the interest rate difference between Iceland and low-interest currency regions. The Central Bank was thus forced to keep its central interest rate high so as to secure foreign depositors against a high risk of depreciation of the Icelandic krona. The fall of the Icelandic Banks forced the government to put in place restrictions on foreign exchange against the Icelandic krona, which virtually resulted in the creation of two foreign exchange (FX) markets for the krona – one on-shore (FX through the Central Bank) and the other off-shore. These restrictions were meant to be temporary, but have been tightened even further in 2009.

Housing and mortgage markets

The housing market came to a near stand-still in 2008 after a record performance in 2007. The number of transactions fell by nearly 65.0%, due to uncertainty in the market and lack of mortgage credit from banks. Furthermore, banks had serious problems in finding financial sources abroad due to high CDS (credit default swap) spreads and lower credit ratings. Icelandic banks were more vulnerable to the global credit crunch and finally collapsed by the time Lehman Brothers went bankrupt. The state-owned Housing Financing Fund remained in the market, although its lending operations decreased in the beginning of 2008, increasing in the third quarter, due to demand from rental housing corporations.

An increasingly large portion of households went into negative equity due to the high inflation caused by the fall of the ISK, but the inflation fueled the indexed-linked mortgages that amount to 91% of all mortgages in Iceland. The remaining 9% are in foreign denominated mortgages. House prices also fell dramatically in real terms. To sum up, all these factors led to severe losses in households` wealth, which are expected to continue into 2009.

The housing market experienced an oversupply of new housing units: 3,212 housing starts were put in place, but a total of 6,486 were in progress by the end of the year, a historical peak in a country with a total population of less than 320,000 people. Completed new housing units in 2008 were 2,968, slightly below the record level reached in 2007. This resulted in 9 new flats per 1,000 inhabitants, while the long-term average is 6.8. The total number of residential units in Iceland was 129,366 at the end of 2008.

In 2008, residential house prices in the Reykjavik Capital Region decreased in nominal terms on the previous year by 3.9%%, but inflation-adjusted prices decreased by 17.5% in December 2008 on a year-on-year basis. Since the beginning of the housing boom, when the Icelandic banks entered the mortgage securities market in August 2004 until the end of December 2008, the total increase in house prices in the capital region in real terms was 21.0% (71.6% in nominal terms). Housing prices reached their peak in January 2008.

At the end of the third quarter of 2008, outstanding household debt was around 1,890 billion ISK (13.1 billion Euros). This figure includes mortgages, overdrafts and other consumer loans. The total household debt increased by 28.0% from the third quarter of 2007 to the third quarter of 2008. Though final annual figures are not available yet, outstanding household debt amounted to 129% of GDP in the third quarter of 2008. The total household debt has not increased, due to prepayments from saving accounts to mortgages in the fourth quarter of 2008. Mortgage debt amounted to around 85.0% of the total household debt.

The real mortgage rate (for index-linked mortgages) used by the Icelandic Housing Financing Fund was at 5.75% without penalty payment in the beginning of 2008, and 5.40% at end of year. Loan-to-Value (LTV) ratios remained substantially unchanged at 80.0% of the market value with a cap of 100% of the insurance value of the property calculated by the Icelandic Property Registry. The highest amount granted for a residential mortgage loan from the Housing Financing Fund in 2008 was 20 million ISK (139,053 Euros). The banks offered 80.0% LTV of the property market price, but the overall number of mortgages handled by the banks went down by 88.0% from 2007 to 2008.

Loan maturity generally increased, but no change was recorded as regards the maximum maturity range, which is still between 5 and 40 years. It reached 25 years in 1989 and was extended to 40 years in 1996. In 2003 only one sixth of residential mortgages issued by the Housing Financing Fund had a maturity of 40 years, while the majority of newly issued mortgages had a maturity of 40 years.

Funding

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

The HFF bonds, which are issued by the Housing Financing Fund, are the primary funding source for mortgage loans and for re-capitalisation of older capital loans. HFF bonds have a governmental guarantee. Due to the uncertain situation of the Icelandic economy, the rating for these bonds went down from AAA in 2007 to BBB (S&P) in November 2008.

The commercial banks financed their mortgages through deposits, bond issues in Icelandic krona and foreign currency, and also by issuing equity. There was limited issuing of structured covered bonds and mortgage-backed securities.

	EU27, 2008	Iceland , 2008	Iceland , 2007
GDP growth	0.8%	1.3%	5.6%
Unemployment rate	7.0%	3.0%	2.3%
Inflation	3.7%	12.8%	5.0%
% owner occupied	66.8%	80.0% – 85.0%	80.0% – 82.0%
Residential Mortgage loans as % GDP	49.8%	129.0%	121.0%
Residential Mortgage loans per capita, € 000s	12.24	n/a	56.58
Total value of residential loans, € million	6,087,928	n/a	17,710
Annual % house price growth	0.3%	-3.9%	14.9%
Typical mortgage rate (Euro area)	5.5%	5.4%	5.8%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, Eurostat, ECB, Statistics Iceland, Icelandic Ministry of Finance

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Iceland= 2008*

Norway

By Odd Kristiansen, Norwegian State Housing Bank

Macroeconomic overview

The financial crisis and the recession in the world economy contributed to a moderate slowdown in the Norwegian economy in 2008 (real GDP increased by 2.1%, after a 3.1% increase in 2007), but the fall in GDP growth is estimated to reach (-1.7 %) in 2009. The recession has especially hit some export – oriented industries. Household consumption also declined during 2008, mainly due to fall in demand for durable consumer goods. However, the slowdown in these GDP components has been clearly offset by increased demand from the public sector and oil industry activity.

In 2007, Norway experienced very moderate inflation (0.8%) mainly due to low-price imports, but consumer prices increased noticeably in 2008 (3.1% on yearly average), due to both rapid growth in household wages and to a strong rise in energy prices. At the same time interest rate levels increased during most of 2008. Gradually, as the strength of the recession became more evident, monitored interest rates were markedly reduced and reductions in money market interest rates followed in turn. The Central Bank of Norway has reduced their key policy rate in several steps to stimulate economic activity. The Central Bank`s interest rate is currently at 1. 25%, the lowest level ever.

Growth in total employment was never as high as in 2007. During 2008 this favourable development in employment reversed, and employment started declining towards the end of the year. Thus unemployment increased, but remained still relatively low - on average 2.5% of the labour force was registered as unemployed in 2008 - mainly due to an increase in public employment. However, due to recession, unemployment is expected to increase to 4.6% in 2010, corresponding to 125,000 unemployed persons.

Housing and mortgage markets

For years Norway experienced considerable growth in house prices and steady increases in housing investment, the year 2008 seemed to be a turning-point. In 2008 housing investment amounted to almost 19.0% of gross fixed capital formation, compared to 23.0% in 2006. The number of housing starts in 2006 reached more than 33,300 dwelling units – the highest level since 1982 – but the starts of new housing fell to 25,800 units in 2008. Due to the fact that many housing starts had taken place in the previous years, more than 28,600 housing units – i.e. 6 units per 1,000 inhabitants – were completed during 2008. High prices in second-hand houses were the main incentive for home builders to start new building projects. While house prices have increased every year since 1993 – with a total growth in prices three times as high as the increase in building costs – this trend has come to a halt in 2008. On average, inflation-adjusted house prices fell by 4.5% (they fell by 1.1% in nominal terms) compared to 2007. However, building costs increased on 2007 by around 6.0%. The combination of falling house prices and increasing building costs, together with a decrease in the number of orders, severely affected housing construction activity. Construction activity also continued to fall into the beginning of 2009.

The earlier rise in house prices from previous years led to significant growth in the mortgage loans portfolio, but the increase in outstanding mortgage lending which was recorded in 2008 was not as high as in the two previous years. In the last two years,total growth in outstanding mortgage lending was nevertheless above 20.0%. A new lending scheme, “mortgage framework loans”, which was introduced in 2006 became very popular. With this scheme, the borrower is to a larger extent free to decide when the loan will be repaid. Thus, the share of mortgage loans out of total households’ debt still increased and reached 82.0% in 2008 (78.0% in 2007). As a consequence of this increase in mortgage loans, the households` debt burden (defined as total debt/gross income ratio) also grew. For 13% of Norwegian households, the debt burden in 2007 was more than three times their income, while this ratio was only 6% in 1995. According to figures from Statistics Norway, the average debt for all Norwegian households amounted to around 93,500 Euros in 2007. As a result of the financial crisis, Norwegian banks have now been more cautious in their lending practices. According to the “Residential loan survey 2008” issued by the Financial Supervisory Authority of Norway, 13.0% of households took out loans where Loan-to-Value (LTV) ratio exceeded 100%, while in 2007 they were 28.0%. For 68.0% of all existing loans in 2008 LTVs were below 80.0%. Despite a decline in debt burden, defaults and losses increased. Statistics from the Norwegian Financial Services Association (FNH) report that net non performing assets in commercial banks amounted to 0.8% of net loans to customers in 2008 (0.4% in 2007). While net losses on loans and guarantees were practically non – existent in 2007, total losses amounted to approximately 3,150 millions NOK (383.2 million Euros) in 2008.

The increase in unemployment probably also played an important role in the rise of non-performing mortgages. In this regard, it should be mentioned that the most important change in housing policy was the improvement in the Norwegian housing allowances scheme, a government housing support scheme issued by the Norwegian State Housing Bank (NSHB) and the municipalities. It aims at helping low-income households deal with high housing expenses to obtain and/or maintain a satisfactory housing standard. This governmental support can now be provided regardless of how the purchase of a dwelling is financed.

As regards the institutions which provide mortgage loans to households, the NSHB has now increased its relative importance in financing the purchase of new dwellings.

Funding

Since 2007, a new legislation paved the way to introduce covered bonds to Norway. This legislation allows specialised mortgage credit institutions to raise funds by issuing covered bonds in order to lend to borrowers in the form of residential mortgages. Due to the financial crisis, large volumes of covered bonds have been issued in exchange for treasury bills in order to increase the lending potential of credit institutions. Such exchange agreements, according to which the Government sells Treasury bills to the credit institutions, will last up to five years.

The main long-term sources of funding in Norway are deposits and bonds. The importance of deposits in funding for Norwegian banks has declined: in 1996, 85.0% of mortgage lending volume was financed by deposits, while around 60.0% were covered by deposits in 2008. Despite the drop in funding through deposits, the level of household savings remained relatively high in Norway. The household savings ratio, which measures the share of savings on total disposal income, is now at 2.0%. The high savings rate imply that many households have an economic cushion which makes them more able to meet unexpected expenses. The banks`total bonds outstanding amounted to around 30.2 billion Euros, and debt increased by around 3.3 billion Euros in 2008 over the previous year.

	EU27, 2008	Norway, 2008	Norway, 2007
GDP growth	0.8%	2.1%	3.1%
Unemployment rate	7.0%	2.5%	2.5%
Inflation	3.7%	3.4%	0.7%
% owner occupied	66.8%	76.7%	76.7%
Residential Mortgage loans as % GDP	49.8%	55.7%	53.3%
Residential Mortgage loans per capita, € 000s	12.24	36.26	32.35
Total value of residential loans, € million	6,087,928	171,743	173,954
Annual % house price growth	0.3%	-1.1%	12.3%
Typical mortgage rate (Euro area)	5.5%	7.7%	6.1%
Outstanding Covered Bonds as % of residential lending	21.2%	13.4%	3.5%

Source: EMF, Eurostat, ECB, Bank of Norway, Statistical Institute of Norway

Notes:

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

[45] Mortgage average within 60% LTV, based on a sample of approximately 50 commercial and savings banks in Norway. Source: Cicero Communication AS

Russia

By Andrei Krysin, European Trust Bank

Macroeconomic overview

According to data provided by the Federal State Statistical Service (Rosstat) in 2006 and 2007, the amount of foreign direct investments (FDI) in the Russian economy before the crisis, amounted to 1.5 and 1.1 billion USD respectively, while in the construction sector it amounted to 0.3 and 0.9 billion USD.

Moreover, 2007 became a record year for the absolute amount of non-residents' investments in the registered capital of Russian banks. As of January 1, 2008 this accounted for 183.5 billion Roubles (RUBs), which represented a 103.9% growth on the level reached in January 2007. However, in 2008 the amount of foreign investment flow in the Russian economy decreased by 14.2% compared to the previous year.

In 2008, the Russian economy received an inflow of 103.8 billion USD, including 27 billion USD of direct investments and 1.4 billion USD in portfolio ones. The remaining amount is credits. The cumulated foreign capital in the Russian economy reached 264.6 million dollars. This represented a 19.9% increase on 2007.

Housing and mortgage markets

During the recent financial and economic crisis the housing problem in Russia has worsened considerably. Over recent years, the construction sector has played a leading role in driving the economic growth of the country. Compared to real GDP growth rates in 2006 and 2007 (8.1% and 5.6% respectively), growth rates in the construction industry have increased considerably and reached 9.3% and 13.2% respectively. In 2008, 765,600 apartments for a total area of 63.8 million square meters were started, representing a 4.5% growth in comparison with the previous year (in 2007, dwellings covering 61 million square metres were started, which was a 20.6% increase on 2006).

For the Russian mortgage industry, 2008 marked the tenth anniversary of the introduction of the Federal Law on Mortgage Lending. However, Russian mortgage lending only started to develop significantly from 2002, due to the establishment of the mortgage loans` re-financing system and the opportunity to securitise mortgage assets by issuing mortgage-backed securities.

Over the last few years, an effective mortgage funding mechanism was successfully set up in Russia. In 2006 and 2007 growth rates in residential mortgage lending have outpaced any forecast, while the interest rates on new mortgage loans kept decreasing. By the end of 2007 the average weighted interest rate constituted: 12.6% on mortgages denominated in RUB and 10.9% denominated in foreign currency (USD).

Information on the value of mortgage lending is available through data provided by the Bank of Russia. As of January 1st 2009, mortgage loans in foreign currencies amounted to 94.6 billion RUB, i.e. 2.6 billion Euros (as of January 1st 2008 they amounted to 118.3 billion RUB, which was equal to 3.2 billion Euros). Total new mortgage lending in 2008 amounted to 643 billion RUB (17.6 billion Euros).

The total outstanding mortgage debt in local currency in 2008 amounted to 820.5 billion RUB and the amount of mortgage debt in foreign currency (USD) was 228.9 billion RUB. Outstanding mortgage debt amounted to 1.0 trillion RUB, which was 28,813 million Euros. Mortgage lending expressed as a percentage of GDP of Russia in 2008 was 2.4%.

The global financial crisis which hit the world economy in the autumn of 2008, also had an impact on the Russian economy and mortgage market. The negative influence of the global financial crisis on the mortgage lending market in Russia resulted in liquidity problems in inter-bank lending, a lack of investors in the mortgage-backed bonds in Russia and rising problems on the funding side.

Lending criteria were tightened as well as in many other countries due to the economic crisis. Indeed, during the second half of 2008 the government did much to support the Russian mortgage lending industry.

The registered capital of the Agency for Housing Mortgage Lending, which was established ten years ago in order to support the development of the mortgage lending market, was increased in 2008 by 60 billion RUB (1.6 billion Euros), which gave banks the opportunity to increase their mortgage lending activity, although at lower volumes than the previous year. A special scheme was developed to help borrowers who found themselves in difficulty due to job loss or sharp decrease in income. In order to implement this program, the *Special Housing Mortgage Loans Restructuring Agency* was created as a sister structure to the *Agency for Housing Mortgage Lending*. The registered capital of this newly-created institution amounted to 5 billion RUB (137.3 million Euros), and the parent company was provided with 25 billion RUB (686.4 million Euros).

Moreover, since the 1st of January 2009, the tax rebate was increased both for purchasing and for building a residential property. Accordingly, homebuyers can save up to 260,000 RUB (7,138 Euros) on their income tax, while previously this amount could not exceed 130,000 RUB (3,570 Euros). Since the 1st of January 2009, homebuyers also have the opportunity to repay their mortgage loans using the so-called "mother capital", which the Government has set up in the framework of its demographic policy to support household formation.

Funding

The share of mortgages funded by securitised mortgage assets increased in Russia over recent years. In 2006, 4 mortgage assets securitisation transactions were recorded; they were 6 in 2007 and 5 in 2008 (so-called "domestic" securitisation). In 2008 there were also 13 issues of trans-border securities.

The total amount of trans-border security transactions based on Russian mortgage assets, amounted to 2.4 billion USD (1.6 billion Euros) at the end of 2008.

Presently, these Russian mortgage projects can be defined as "pilot" ones, as the Russian banks had no previous experience in these transactions. In spite of the crisis however, the securitisation market in Russia has shown great potential.

	EU27, 2008	Russia, 2008	Russia, 2007
GDP growth	0.8%	5.6%	8.1%
Unemployment rate	7.0%	n/a	6.1%
Inflation	3.7%	11.4%	9.0%
% owner occupied	66.8%	63.8%	63.8%
Residential Mortgage loans as % GDP	49.8%	2.4%	1.9%
Residential Mortgage loans per capita, € 000s	12.24	0.20	0.11
Total value of residential loans, € million	6,087,928	28,813	17,463
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	n/a	n/a
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, EUROSTAT, ECB, IMF, ILO, Russian Federal Central Bank

Notes:

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

Serbia

By Goran Milicevic, Faculty of Economics, University of Belgrade

Macroeconomic overview

The global recession was not a major factor influencing the domestic economic scene until October 2008. Investment plans continued as before, particularly in the real estate sector. What is more, major players in the private sector were pulling cash from their other operations in order to complete big real estate projects (mostly non residential) thus reducing the availability of funding.

As a consequence, the country was not yet in recession, but it was quickly heading into one. Official estimates were over-optimistic, so they had to be reduced downwards. Real GDP growth in 2008 was still positive, though not around the rate of 6.0% that was recorded in past years, but somewhat lower, at 5.4%. Yet official predictions for 2009 had to be halved (from 6.0% to 3.0%), by the spring of 2009, and the question now is whether there will be any positive growth rate in 2009. Importantly, the devaluation of the domestic currency by about 10% (from 86 to 95 dinars per Euro) in the last two months of 2008, has put into question the actual size of GDP growth rate.

Yet, further currency devaluation is not expected due to a considerable IMF injection to Serbian hard currency reserves. But the price of that injection was a considerable cut to the government budget, with reduced consumption, as the most likely consequence. The rise of the average monthly wage from 350 to 370 euros during 2008, was followed by a large drop to 318 Euros in April of 2009.

In addition, considering rather poor prospects for a considerable rise in foreign direct investments, chances for any growth of GDP will most likely depend on the size of remittances. They are, depending from the source, estimated between 3 and 5 billion Euros (that is between 1/10 and 1/6 of GDP). Though, in times of global recession it is unlikely that remittances will remain of the same level as in previous years.

Officially, the unemployment rate has reached the lowest level (14.7%) in more than a decade, but in the coming years it is expected to grow considerably. Since official figures are not showing larger increases in unemployment (just 3,000 units in 2008, and only 22,000 for the 1st quarter of 2009) this indicates that fewer people are opting to register in the labour force and that, most likely, employment in the grey and black sector of the economy is growing.

Housing and mortgage markets

Construction activity was in full upswing until the last quarter of 2008. Since then it stabilised. House prices peaked to 20,000 Euros/m² for larger properties and 40,000 Euros/m² for top-class smaller dwelling units in the main streets of Belgrade (which represented a 100% growth in just two years, with a yearly growth rate of 35%, clearly providing evidence of a housing bubble). At the same time, there was a considerable decrease in demand for foreign investments in non-residential buildings and - in addition - over-investment in shopping centres.

Yet, prices have not fallen by more than 10%, which clearly indicates the monopolistic structure of the market, with a very limited number of developers. Since this is the first very big downturn in a relatively young real estate market in Serbia, major real estate companies are hoping that this sudden downward trend in prices will not last for long and that they will be able to sell at the prices they expected when they made their investment.

Thus, it is very difficult to predict when prices in the real state sector (particularly commercial, office and retail sector) will start to return to the level which will reach the equilibrium levels in the market. Judging from the behaviour of the major players, a correction in house prices will not happen soon, and this may prolong the current crisis.

Domestic savings have reached the level of 5 billion Euros, which is still greater than the amount of outstanding residential mortgage loans. Besides, the share of residential mortgage loans has reached 45% of all household loans, and in the spring of 2009 this share has exceeded 50%. It is worth remembering that only three years earlier this share was barely 10%. This indicates that not even the increase in mortgage interest rates, from around 5.00% to around 8.00%, has reduced the demand for residential mortgage loans.

Despite all the negative developments in the economy, the housing mortgage lending has reached new records in 2008. Outstanding residential mortgage loans are approaching 2 billion Euros (1.9 billion Euros if we take the exchange rate at the end of the year, 1.8 billion Euros if we use the average exchange rate throughout the year). This means that for the first time on record outstanding residential mortgage loans have exceeded 5% of GDP, reaching almost 6% (5.8% if we take the exchange rate at the end of the year, 6.2% if we use the average annual exchange rate).

For the time being, arrears and defaults on loan payments are still very low (2.2% of all borrowers were in default in 2008), because mortgage loans were taken out mainly by the upper income segment (top 3%) of households, who would have paid more for their rents than for the monthly payment of the mortgage loan.

Besides, mortgage lenders have introduced stricter rules for lending (i.e. abandoning their previous practice of lending at a monthly rate reaching 50% of the household`s total monthly income). Therefore, instead of foreclosure rates rising to double-digits, there will more likely be a considerable if not dramatic slowdown in the mortgage lending growth rate until the recession period is over. For instance, in the first quarter of 2009 government-backed mortgage loans for young couples decreased significantly, while insurance of new loans at the National Corporation for Insurance of Mortgage Loans stagnated at 1.5 billion Euros.

	EU27, 2008	Serbia, 2008	Serbia, 2007
GDP growth	0.8%	5.4%	7.3%
Unemployment rate	7.0%	14.7%	18.1%
Inflation	3.7%	11.7%	6.5%
% owner occupied	66.8%	89.0%	89.0%
Residential Mortgage loans as % GDP	49.8%	5.8%	4.2%
Residential Mortgage loans per capita, € 000s	12.24	0.26	0.17
Total value of residential loans, € million	6,087,928	1,920	1,275
Annual % house price growth	0.3%	n/a	n/a
Typical mortgage rate (Euro area)	5.5%	8.0%	5.0%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, EUROSTAT, ECB, IMF, Statistical Office of Serbia

Notes:

- *The unemployment rate data for Serbia in 2008 is preliminary*
- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate average derived from EMF calculations based on latest available data. Serbia= 2002*

Ukraine

By Oleksiy Pylypets and Oleksandr Moiseienko, Ukrainian National Mortgage Association

Macroeconomic overview

2008 was the ninth year in a row of real GDP growth above 2.0% for the Ukraine (2.1%). A deceleration in real GDP dynamics was caused by many factors. Political instability, global economic crisis, abrupt depreciation of UAH against foreign currencies, contraction of lending programmes and the ban on withdrawing deposits, massive lay-offs, all had a serious impact on Ukraine's economy.

Consumer prices inflation (CPI) was 22.3% in 2008 (16.6% in 2007). A rise in CPI was caused by an abrupt depreciation of UAH against foreign currencies, economic and political instability in Ukraine, rising prices in world markets and the reduction of profits from foreign trade.

Considerable increases in households' income contributed to a general increase in loans granted to individuals and a consequent increase in banks' external borrowings abroad - with the total volume of loan deposits in 2008 increasing by 71.9% up to UAH 733.9 billion (95.3 billion Euros) - by 75.8% (including loans to individuals).

The average weighted interest rate on loans to individuals denominated in national currency in 2008 was 21.5%, while it was 13.0% for loans denominated in USD, and 16.0% for loans in Euros. As of 1 January 2009, average interest rates on UAH mortgages were 22.8%, 16.4% on USD mortgages, and 15.7% on mortgages denominated in Euros.

Total banking system deposits increased by 27.7% in 2008 up to UAH 357.8 billion (0.4 billion Euros). By this time, deposits in domestic currency increased by 5.2%, in foreign currencies they increased by 75.3%. The average weighted interest rate on deposits in national currency in 2008 was 15.3%, it was 14.0% on USD deposits, and 11.0% on deposits in Euros.

As of end of 2008, the official exchange rate of UAH against USD increased by 52.4% and amounted to UAH 770,00 per USD 100. The exchange rate with the Euro increased by 46.3% and as of end of December 2008, amounted to UAH 1,085.546 per 100 Euros.

In 2008, the unemployment rate reached 6.6% on a yearly average (compared to 6.9% in 2007).

Housing and mortgage markets

2008 was a difficult year for the real estate market. During the course of the year, house prices increased. In the first half of the year, this increase was due to increasing demand, growing construction costs and the desire of sellers to sell premises at the highest prices possible. However, as of Q3 2008 a slowdown in growth of house prices was observed. In Q4 2008 prices continued to increase, but a deeper analysis on the causes and conditions for such growth suggests that this was probably the result of the appreciation of foreign currencies against the national currency so that real prices, in fact, started to fall.

Over the year, the actual average sale price of one square metre in intermediary-sold apartments dropped by 31.4% (from 1,997 Euros per one sq. m. to 1,351 Euros per one sq. m.)

A significant role in this downturn of housing prices was played by a drop in the UAH exchange rate against foreign currencies and mass lay-offs. Most people took foreign currency loans to purchase properties and received wages in the national currency. Having faced a dramatic devaluation of the national currency and mass layoffs, most borrowers decided it would be cheaper to sell the pledged property and repay the loan than giving up a large part of the family income.

Many owners tried to sell their apartments as fast as possible. Depending on the number of rooms, in 2008 prices in the second-hand housing market in Kiev recorded year-on-year growth rates as follows:

- 1-room apartments: -14.0%
- 2-room apartments:-15.3%
- 3-room apartments: -20.0%
- multiple-room apartments: -14.0%.

The residential mortgage market in 2008 remained one of the most dynamic and promising segments of the Ukrainian lending industry. Despite ongoing stagnation in the real estate sector and the crisis in the world financial markets, Ukrainian mortgage lending continued to grow at a high pace.

As of 1 January 2009, total mortgage banks' portfolio reached UAH 107.5 billion (13.7 billion Euros), or 11.3% of GDP. Net mortgage loans were UAH 50.3 billion (6.8 billion Euros). In 2008, year-on-year growth rate in mortgage lending in Ukraine (expressed in Euros) was 70%.

The share of mortgage loans on the total loan portfolio amounted to 14.7%, and more than one third of total loans to individuals consisted of mortgage loans (39.3%).

The developments in domestic demand for mortgage loans mirrored most objectively what happened in the mortgage market, reflecting consumers` and borrowers` sentiments. After October 13th, 2008, Ukrainian banks almost stopped lending. Issuance of new mortgages started decreasing. This happened because borrowers, being unable to take out new loans, tried to repay existing ones. In quantitative terms, growth in mortgage assets was negative. The demand for loans remained sustained but there was no ability from the supply side to meet this demand. Moreover, after the issuance of Resolution No. 319 of 11 October 2008 from the National Bank of Ukraine on "Additional Measures Regarding Bank Activities,"[46] banks almost stopped lending to other industrial sectors.

The total market share of the top 5 lenders at the end of 2008 was 61.0%, while at the end of 2007 it was 60.0%. The market share of the top 10 mortgage lenders became somewhat stronger, since as of end of 2008 they accounted for 80.1% of the mortgage market (78.1% as of 1 January 2008).

In 2008, borrowers were required to make downpayments, on average, of 20 to 30% of the house price. This was the same level recorded in the previous year.

A typical maturity of a residential mortgage loans in Ukraine is 20 years. Some lenders offer their clients mortgage loans with maturity up to 30 years.

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[46] On 11 October 2008, the National Bank of Ukraine (the "NBU") issued Resolution No. 319 "On Additional Measures in Respect of Banking Activities" ("Resolution No. 319"), which imposes a number of restrictions intended to neutralize the impact of the external financial crisis and to stabilize the banking system of the Ukraine.

The key restrictions contained in Resolution No. 319, which affect Ukrainian commercial banks, their shareholders, and clients, are as follows:

■ In respect of the liquidity of the banks:

- the NBU provides credit facilities to banks with a maturity of up to one year, with at least a 15.0% fixed rate interest level, in the amount of up to 60.0 % of the banks' regulatory capital, but not exceeding 90.0% of the collateral value; and
- before approaching the NBU, a bank is required to seek liquidity support from its shareholders that own 10.0% or more of the share capital of the bank.

■ In respect of debit and credit transactions:

- the NBU has capped the assets of banks (and has limited operations with them) at the level existing on 13 October 2008;
- banks are required to limit their loans to borrowers, who do not generate foreign currency revenues, to the amount of indebtedness under such loans existing as of 13 October 2008;
- a client's payment instructions may only be accepted if the payment amount does not exceed the balance of the account at the time when the instructions are given; furthermore, such instructions must be executed on the following business day (rather than on the day when the instructions are given); and the early withdrawal of deposits is disallowed.

Funding

Deposits still remain the main source of mortgage financing. Yet in 2007 and 2008 two pilot issues of mortgage securities were launched in the secondary mortgage market.

In February 2007, the first deal was carried out to securitise Ukrainian residential mortgage loans originated by Privatbank for the total amount of USD 180 million (122 million Euros).

In the fall of 2008, the first issue of mortgage covered bonds in the national currency was carried out by the Kreschatyk Bank for the total amount of UAH 70.0 million (90,000 Euros) at the coupon rate of 15.5%.

	EU27, 2008	Ukraine, 2008	Ukraine, 2007
GDP growth	0.8%	2.1%	7.2%
Unemployment rate	7.0%	6.6%	6.9%
Inflation	3.7%	22.3%	16.6%
% owner occupied	66.8%	n/a	n/a
Residential Mortgage loans as % GDP	49.8%	11.3%	8.6%
Residential Mortgage loans per capita, € 000s	12.24	0.30	0.18
Total value of residential loans, € million	6,087,928	13,968	8,285
Annual % house price growth	0.3%	n/a	n/a.
Typical mortgage rate (Euro area)	5.5%	22.8%	14.8%
Outstanding Covered Bonds as % of residential lending	21.2%	n/a	n/a

Source: EMF, Eurostat, ECB, IMF, Statistics Office of Ukraine, UNMA

Notes:

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

United States

By Dwight Jaffeee and Sean Wilkoff, University of California, Berkeley

Macroeconomic overview

Over the last 10 years, the US economy has experienced two significant macroeconomic cycles. From 1998 to 2000, referred to as the dot-com boom, the economy grew rapidly (GDP growth in excess of 4% annually), the unemployment rate fell toward 4%, and inflation was limited. During 2001 and 2002, the economy suffered the dot-com bust and recession, with annual GDP growth falling to about 1% annually, and the unemployment rate reaching 6%. This recession was relatively mild and short-lived: from 2003 to 2006 the economy was again growing steadily and the unemployment rate headed below 5%. The last phase, of course, has been the subprime mortgage crisis. For 2008, GDP growth averaged only 0.4% and the unemployment rate reached 5.8%. Unfortunately, the worst was still to come, and during the first quarter of 2009 the economy suffered sharply negative growth and unemployment rates well above 6%. Last seen in May 2009, GDP was still falling and unemployment rates were still rising. In short, the US economy is now in the biggest recession since the Great Depression of the 1930s.

Housing and mortgage markets

The US housing market had a sustained boom from 1997 through 2006 by almost all measures; even the dot-com bust in 2001-2002 had very little effect. For the full period, housing starts averaged over 1.7 million starts annually, with a peak production of over 2 million housing starts in 2005. Housing permit and housing completion activity occurred at correspondingly high values. Existing home sales rose from 4 million in 1997 to over 7 million in 2005. House prices also rose steadily, and in many years dramatically from 1997 through 2006. The US home ownership rate also rose steadily, rising from 65.7% in 1997 to the peak of over 69% in 2004, before falling back by about 1% by 2008.

One early sign of the real estate bubble bursting was in 2006 with a 10% drop in permits issued and housing starts. Housing completions lag housing starts, so the decline in completions did not occur until 2007. By 2008, the housing market was in a deep recession, with housing starts and permits issued at less than half the 2005 level. Median house prices grew over 75% for existing homes and over 65% for new homes from 1997 to 2006 and 2007 respectively. Existing home prices have been falling since 2007 and are still falling. New home prices showed their first decline in 2008 and they too are still declining.

Gross residential mortgage lending—mortgage originations—shows a general upward trend from the 1999 value of USD 1,310 billion annual origination (1,190 billion Euros) to the peak value of 3.1 trillion USD (2,516 billion Euros) annual originations in 2005. There are additional cycles in originations, however, due to waves of mortgage repayments and refinancing. Outstanding mortgage loans and the net change in these loans follow the pattern of gross originations and repayments and refinancing. By year-end 2008, there are over 11 trillion USD of outstanding US residential mortgages (8,115 billion Euros). Reflecting the effects of the subprime mortgage crisis, mortgage originations in 2008 fell to 1.5 trillion USD (1.0 trillion Euros) and are still declining. Mortgage interest rates show a variable pattern over the period. They begin at 7.6% in 1997, decrease the next year, then rise peaking at just over 8% in 2000. Mortgage rates then steadily decline, reaching 5.8% in 2003. Rates stabilize at this level through 2006, then increase slightly the next 2 years to about 6.4%. By 2008, they have declined to 6.0% and are still falling.

Loan-to-Value (LTV) ratios are one key measure of loan credit standards. LTV ratios trended down from 80% in 1998 to 75% in 2005. In 2006 there is a slight upswing in LTV ratios. In 2007 the LTV for buyers of existing homes reached a record high of 79.9% whereas LTV for buyers of new homes only reaches the 2001 levels at 77.1%. The negative impact of the dot-com bubble on housing can be seen through the change in delinquencies and foreclosures. In 2001 and 2002 we see an increase from the normal annual foreclosure rate of about 1.1% to a 1.5% rate. After 2002, the foreclosure rate slowly drops back to pre-dot-com bubble rates until 2007. By 2008, the effects of the real estate crises cause the foreclosure rates to triple over the 2006 rate. This brings the foreclosure rate to 3.3%. Not surprisingly, we see the same pattern in delinquencies of 30 days or greater. The difference is the increase in 2008 is not as dramatic as foreclosures. Data for the subclass of subprime mortgages would, of course, show dramatically higher delinquency and foreclosure rates.

US housing policy has always promoted homeownership. In the last decade the government introduced new incentives, implemented through the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. For one thing, the GSEs faced quantitative goals to increase the amount of their loans available for moderate–low-income individuals. Other forces, however, had at least as strong, and perhaps stronger, impacts on the US housing market over the last decade. One fundamental factor was the “savings glut” created in large part by the large and continuing trade surpluses of several Asian countries—most importantly China—combined with the high saving rates of these countries and their policy of investing the surpluses primarily in high quality, dollar-denominated, fixed-income securities. Through a variety of securitisation channels, these funds were invested in US mortgage securities. This force might well have reduced US mortgage interest rates by 50 to 100 basis points below the level they would have otherwise attained. A second related factor was the innovation of subprime mortgage lending, which provided a channel for lending to lower quality borrowers than had previously existed. At first, subprime lending appeared to work remarkably well, as rising home prices eliminated the possible defaults from these lower quality loans. However, as the housing bubble continued through 2005 and 2006, house prices became increasingly separated from economic fundamentals—that is, traditional standards of affordability vanished. Ultimately housing prices had to crash, and so they did beginning in 2007 and continuing to the present.

Funding

Mortgage securitisation has been actively carried out for 25 years and subprime mortgage securitisation for more than a decade. During this decade, the percentage of subprime mortgages that were securitised expanded steadily, reaching over 85% by 2005. Of course, once the high default rates on subprime mortgages became evident, buyers of subprime securitisations vanished, leaving the originators holding the loans. In turn, with an overflowing pipeline of loans in process, lenders were unwilling and unable to continue making new loans. Prime loans fared only slightly better, and there was virtually no private issuance of mortgage-backed securities (MBS)—prime or subprime—in 2008. This left the GSEs now operating under a government conservatorship as the primary purchaser and securitiser of US mortgages. Nevertheless, the 2008 GSE volume remains well below its peak level of 2003.

	EU27, 2008	USA, 2008	USA, 2007
GDP growth	0.8%	0.4%	2.1%
Unemployment rate	7.0%	5.8%	4.6%
Inflation	3.7%	3.8%	2.8%
% owner occupied	66.8%	67.8%	68.1%
Residential Mortgage loans as % GDP	49.8%	83.6%	86.7%
Residential Mortgage loans per capita, € 000s	12.24	26.69	28.99
Total value of residential loans, € million	6,087,928	8,115,782	8,733,796
Annual % house price growth	0.3%	-8.6%	-0.8%
Typical mortgage rate (Euro area)	5.5%	6.0%	6.3%
Outstanding Covered Bonds as % of residential lending	21.2%	0.2%	n/a

Source: EMF, ECB, Eurostat, Bureau of Economic Analysis, US Bureau of Census, Federal Reserve

Notes:

- *Typical mortgage rate Euro area refers to the APRC (Source: ECB)*
- *EU owner occupation rate for the EU27 average derived from EMF calculations based on latest available data. US= 2008*

1. Residential mortgage debt to GDP Ratio %

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	13.7%	16.3%	17.6%	20.4%	21.9%	23.6%	23.9%	25.3%
Belgium	26.5%	27.6%	27.8%	26.7%	27.8%	30.2%	30.9%	33.9%	36.3%	36.8%	39.8%
Bulgaria	n/a	0.4%	0.4%	0.5%	0.7%	1.2%	2.6%	4.6%	7.0%	9.9%	11.6%
Cyprus	3.6%	5.4%	5.8%	6.3%	7.8%	9.9%	11.7%	15.7%	37.1%	44.7%	50.2%
Czech Republic	n/a	n/a	n/a	n/a	1.9%	3.0%	4.2%	6.0%	7.1%	9.8%	10.8%
Denmark	75.0%	76.2%	71.2%	74.7%	77.0%	82.6%	86.0%	94.0%	88.6%	92.8%	95.3%
Estonia	3.7%	4.1%	4.7%	5.6%	7.6%	11.2%	16.0%	23.7%	32.7%	36.3%	39.2%
Finland	29.5%	30.3%	30.2%	31.0%	32.6%	35.0%	38.2%	42.0%	43.6%	45.7%	47.5%
France	20.0%	20.8%	21.2%	21.7%	22.6%	24.2%	26.0%	29.3%	32.2%	34.9%	35.9%
Germany	51.9%	55.6%	53.2%	53.1%	53.2%	53.5%	52.4%	51.9%	51.3%	47.7%	46.1%
Greece	6.3%	7.3%	9.0%	11.8%	14.8%	17.2%	20.2%	25.1%	29.3%	30.2%	32.0%
Hungary	n/a	n/a	n/a	2.1%	4.5%	8.0%	9.2%	10.4%	11.4%	12.4%	14.0%
Ireland	26.5%	28.9%	31.1%	32.8%	36.3%	42.7%	52.2%	61.4%	70.1%	75.3%	80.0%
Italy	7.8%	9.0%	9.8%	9.9%	11.0%	13.0%	14.8%	17.1%	18.7%	19.8%	19.8%
Latvia	n/a	0.7%	1.6%	2.4%	4.1%	7.6%	11.4%	19.3%	28.9%	33.7%	31.2%
Lithuania	0.9%	1.4%	1.1%	1.4%	2.2%	4.1%	6.9%	11.0%	12.6%	17.5%	17.3%
Luxembourg	23.3%	22.4%	25.0%	27.3%	27.6%	30.6%	32.6%	34.0%	33.5%	38.5%	43.5%
Malta	n/a	8.0%	8.0%	17.9%	19.6%	23.4%	27.6%	31.8%	34.7%	37.6%	38.8%
Netherlands	60.8%	60.7%	68.2%	73.0%	88.3%	93.2%	94.9%	94.3%	95.4%	98.6%	99.1%
Poland	1.5%	1.7%	2.1%	2.7%	3.4%	4.5%	4.7%	6.0%	8.3%	11.7%	15.6%
Portugal	n/a	36.9%	41.5%	44.4%	47.9%	47.8%	49.3%	53.3%	59.2%	62.1%	63.3%
Romania	n/a	n/a	n/a	n/a	n/a	n/a	1.5%	1.8%	2.3%	3.5%	4.0%
Slovakia	n/a	n/a	n/a	n/a	3.9%	4.8%	6.5%	8.1%	9.6%	11.9%	13.2%
Slovenia	n/a	0.3%	0.3%	0.4%	0.8%	1.1%	3.0%	5.0%	6.6%	8.0%	9.1%
Spain	23.8%	26.7%	29.9%	32.5%	35.9%	40.0%	45.7%	52.3%	58.1%	61.4%	62.0%
Sweden	44.5%	46.4%	45.3%	46.9%	48.0%	49.6%	51.8%	55.3%	56.7%	57.0%	60.6%
UK	50.6%	54.2%	55.9%	58.9%	63.9%	69.3%	74.1%	78.4%	83.1%	86.3%	80.5%
EU27	33.2%	35.7%	36.3%	37.5%	39.9%	42.0%	44.1%	46.4%	49.1%	51.2%	49.8%
Iceland	49.4%	53.6%	56.7%	59.4%	61.1%	66.2%	71.0%	80.8%	75.5%	121.0%	129.0%
Norway	39.6%	41.6%	39.1%	42.1%	47.6%	52.0%	53.3%	51.6%	n/a	53.3%	55.7%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	0.4%	0.8%	n/a	1.9%	2.4%
Serbia	n/a	n/a	n/a	n/a	0.0%	0.1%	0.5%	1.5%	2.9%	4.2%	5.8%
Ukraine	n/a	n/a	n/a	0.1%	0.1%	0.3%	0.3%	1.1%	2.6%	8.6%	11.3%
USA	52.7%	54.8%	56.4%	60.5%	66.1%	71.1%	76.1%	81.1%	84.8%	86.7%	83.6%

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, Eurostat, Bureau of Economic Analysis, Federal Reserve, International Monetary Fund

Notes:

- *n/a: figures not available*
- *Denmark: The figure for the Danish market is an estimate; the data provided by the Danish Mortgage Association represent lending by mortgage banks only, which account for approx. 90% of the market.*
- *Czech, Cypriot, Dutch and Finnish series have been revised*

2. Residential Mortgage Debt per Capita, 000s

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	3.69	4.46	4.91	5.91	6.56	7.34	7.82	8.56
Belgium	5.92	6.44	6.84	6.75	7.22	8.01	8.60	9.68	10.86	11.53	12.86
Bulgaria	n/a	0.01	0.01	0.01	0.02	0.03	0.07	0.13	0.23	0.37	0.52
Cyprus	0.46	0.72	0.85	0.98	1.23	1.62	2.04	5.53	7.11	8.87	10.77
Czech Republic	n/a	n/a	n/a	n/a	0.15	0.24	0.36	0.59	0.79	1.21	1.54
Denmark	21.99	23.41	23.20	25.03	26.51	28.93	31.25	36.18	40.90	38.71	40.57
Estonia	0.13	0.16	0.21	0.28	0.44	0.70	1.11	1.94	3.18	4.19	4.64
Finland	n/a	n/a	n/a	n/a	5.96	6.86	7.90	9.23	10.45	11.67	16.67
France	4.40	4.74	5.05	5.33	5.72	6.24	6.96	8.06	9.17	10.17	10.99
Germany	12.34	13.64	13.36	13.65	13.83	14.01	14.02	14.09	14.36	14.05	13.96
Greece	0.63	0.79	1.03	1.43	1.94	2.43	3.08	4.10	5.14	6.21	6.93
Hungary	n/a	n/a	n/a	0.12	0.31	0.59	0.75	0.91	1.01	1.25	1.46
Ireland	5.65	7.02	8.62	10.00	12.11	14.98	19.12	24.08	29.29	32.20	33.75
Italy	1.49	1.78	2.06	2.17	2.51	3.02	3.56	4.17	4.70	5.13	5.23
Latvia	n/a	0.02	0.06	0.09	0.17	0.33	0.55	1.09	2.04	2.96	3.18
Lithuania	0.02	0.04	0.04	0.05	0.10	0.19	0.37	0.66	0.88	1.44	1.66
Luxembourg	9.56	10.43	12.67	14.03	14.97	17.47	19.48	21.99	24.69	29.03	32.93
Malta	n/a	0.77	0.89	1.96	2.22	2.60	3.09	3.77	4.38	4.94	5.43
Netherlands	13.98	14.87	17.98	20.46	25.51	27.44	28.68	29.45	33.59	34.14	35.94
Poland	0.06	0.07	0.10	0.15	0.18	0.23	0.25	0.38	0.59	0.94	1.48
Portugal	n/a	4.16	4.98	5.59	6.28	6.36	6.79	7.55	8.69	9.52	9.91
Romania	n/a	n/a	n/a	n/a	n/a	n/a	0.04	0.07	0.11	0.20	0.25
Slovakia	n/a	n/a	n/a	n/a	0.19	0.26	0.41	0.57	0.78	1.21	1.58
Slovenia	n/a	0.03	0.03	0.05	0.10	0.13	0.40	0.68	0.98	1.32	1.68
Spain	3.24	3.88	4.70	5.46	6.39	7.51	9.08	11.05	13.07	14.51	14.89
Sweden	11.20	12.47	13.42	13.06	13.93	14.96	16.21	17.65	19.18	20.71	21.68
UK	11.08	12.82	14.97	16.12	18.13	18.83	21.66	23.55	26.22	28.76	23.84
EU27	6.39	5.63	6.24	6.49	6.64	7.36	7.92	9.12	10.48	11.36	12.24
Iceland	13.36	15.90	19.11	18.47	20.10	22.23	25.99	35.95	32.77	56.58	n/a
Norway	12.08	13.98	15.95	17.85	21.47	22.73	24.24	27.19	n/a	32.35	36.26
Russia	n/a	n/a	n/a	n/a	n/a	n/a	0.01	0.04	n/a	0.11	0.20
Serbia	n/a	n/a	n/a	n/a	0.00	0.00	0.01	0.04	0.09	0.17	0.26
Ukraine	n/a	n/a	n/a	0.00	0.00	0.01	0.01	0.04	0.09	0.18	0.30
USA	n/a	16.54	21.32	23.89	25.33	23.77	24.48	27.49	29.73	28.99	26.69

Source: European Mortgage Federation National Experts, Eurostat, European Central Bank, National Central Banks, National Statistics Offices, Federal Reserve, US Bureau of Census

Notes:

- *n/a: figures not available*
- *Denmark: The figure for the Danish market is an estimate; the data provided by the Danish Mortgage Association represent lending by mortgage banks only, which account for approx. 90% of the market.*
- *Czech, Cypriot, Dutch and Finnish series have been revised*

3. Covered Bonds as % GDP

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	n/a	n/a	1.8%	n/a	1.5%	1.3%	1.5%	3.0%
Belgium	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
Cyprus	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	2.0%	2,2%	4.4%	4.9%	6.5%	5.5%
Denmark	n/a	n/a	n/a	n/a	n/a	120.3%	127.5%	137.5%	136.4%	141.4%	156.8%
Estonia	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	0.2%	1.0%	1.8%	n/a	3.1%
France	n/a	n/a	n/a	n/a	n/a	1.3%	1.6%	1.9%	2.4%	3.4%	6.1%
Germany	n/a	n/a	n/a	n/a	n/a	11.8%	11.2%	10.6%	9.7%	8.5%	8.7%
Greece	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	4.8%	6.0%	5.7%	6.1%	5.8%	6.8%
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	1.4%	2.5%	6.8%	7.3%	12.4%
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4%
Latvia	n/a	n/a	n/a	n/a	n/a	0.4%	0.5%	0.5%	0.4%	0.2%	0.4%
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	0.1%	0.1%	0.1%	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.5%	0.4%	0.4%
Malta	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	0.4%	1.4%	2.8%	3.5%
Poland	n/a	n/a	n/a	n/a	n/a	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.3%	4.8%	9.2%
Romania	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	1.3%	2.3%	3.2%	4.2%	n/a	5.6%
Slovenia	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	7.3%	11.3%	16.6%	22.0%	25.4%	28.8%
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18.0%	27.8%	38.5%
UK	n/a	n/a	n/a	n/a	n/a	0.3%	0.9%	1.5%	2.7%	4.0%	10.3%
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.1%	3.0%
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2.0%	7.5%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.0%
USA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.1%

Source: European Covered Bond Council, Eurostat, Federal Reserve

Notes:

- *n/a: figures not available*
- *Covered bonds are debt instruments secured by a cover pool of mortgage loans (property as collateral) or public-sector debt to which investors have a preferential claim in the event of default. The covered bond data included in this table only applies to mortgage loan covered bonds.*

4. Owner Occupation rate, %

	Latest data available	Owner occupation rate
Austria	2003	57.0%
Belgium	2007	78.0%
Bulgaria	2002	96.5%
Cyprus	2006	68.0%
Czech Republic	2007	58.7%
Denmark	2008	54.0%
Estonia	2008	96.0%
Finland	2007	59.0%
France	2007	57.4%
Germany	2002	43.2%
Greece	2008	80.6%
Hungary	2003	92.0%
Ireland	2008	74.5%
Italy	2002	80.0%
Latvia	2007	87.0%
Lithuania	2008	97.0%
Luxembourg	2008	75.0%
Malta	2006	75.0%
Netherlands	2008	57.0%
Poland	2004	75.0%
Portugal	2007	76.0%
Romania	2007	97.0%
Slovakia	2008	88.0%
Slovenia	2008	82.0%
Spain	2008	84.5%
Sweden	2007	52.0%
UK	2008	59.0%
EU27	/	66.8%
Iceland	2008	80-85.0%
Norway	2001	77.0%
Russia	2003	63.8%
Serbia	2002	89.0%
Ukraine	n/a	n/a
USA	2008	67.8%

Source: European Mortgage Federation, National Statistics Offices, World Bank, United Nations Economic Commission for Europe, International Union for Housing Finance, Organisation for Economic Co-operation and Development, US Bureau of Census

Notes:

- *n/a: figures not available*
- *Luxembourg: households only*
- *Malta: households only*
- *The EU27 average has been weighted with the total dwelling stock*

5. Total dwelling stock

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	3,649,524	3,690,956	3,726,696	3,754,526	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	4,581,738	4,624,970	4,659,202	4,711,435	4,743,974	4,782,060	4,819,612	4,858,339	4,902,629	4,950,489	n/a
Bulgaria	n/a	n/a	n/a	3,352,225	3,697,322	3,697,322	3,704,798	3,715,890	3,728,554	n/a	3,767,081
Cyprus	275,000	282,000	288,000	293,000	299,000	305,000	314,000	325,000	341,000	358,000	n/a
Czech Republic	n/a	n/a	n/a	4,366,293	4,393,584	4,420,711	4,452,979	4,485,842	4,516,032	4,557,681	4,596,061
Denmark	2,495,000	2,513,000	2,526,000	2,541,000	2,554,000	2,572,000	2,592,000	2,620,885	2,644,640	2,670,407	2,696,452
Estonia	620,400	621,200	621,900	622,500	623,600	626,100	629,000	633,100	638,200	645,200	650,500
Finland	2,449,000	2,478,000	2,512,000	2,544,000	2,574,000	2,603,000	2,635,000	2,669,177	2,700,365	2,731,826	n/a
France	28,530,000	28,816,000	29,133,000	29,451,000	29,768,000	30,096,000	30,425,000	n/a	32,026,000	32,515,000	n/a
Germany	37,529,000	37,984,000	38,384,000	38,682,000	38,925,000	39,141,000	39,362,000	39,551,200	39,753,200	39,918,200	40,100,000
Greece	5,187,000	5,258,000	5,329,000	5,476,162	n/a	n/a	n/a	n/a	n/a	n/a	6,428,194
Hungary	4,021,000	4,038,000	4,076,800	4,070,000	4,104,000	4,134,000	4,172,787	4,209,472	4,238,000	4,244,000	n/a
Ireland	1,329,000	1,366,000	1,406,000	1,448,000	1,506,000	1,575,000	1,652,000	1,733,000	1,804,000	1,882,000	1,934,000
Italy	26,451,000	26,498,000	26,548,000	26,526,000	26,649,000	26,700,000	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	796,000	877,000	958,000	967,000	986,557	997,821	1,003,683	1,013,002	n/a
Lithuania	1,306,000	1,324,000	1,309,300	1,291,700	1,295,000	1,293,029	1,300,038	1,299,500	1,306,786	1,316,101	1,327,930
Luxembourg	115,465	116,849	118,232	119,616	121,000	122,383	123,767	125,150	n/a	n/a	175,327
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	125,000	133,000	135,000
Netherlands	6,522,000	6,590,000	6,651,000	6,710,000	6,764,000	6,809,581	6,861,877	6,912,405	6,967,046	7,029,975	7,028,606
Poland	11,729,000	11,787,000	11,845,000	11,946,000	11,763,000	12,596,000	12,758,000	12,872,060	12,987,247	n/a	n/a
Portugal	4,857,000	4,953,000	5,050,000	5,052,000	5,053,000	5,055,000	5,463,000	5,462,430	5,519,654	n/a	n/a
Romania	7,860,000	7,885,000	7,908,000	8,107,000	8,129,000	8,152,400	8,176,500	8,201,508	8,231,295	8,270,549	8,317,848
Slovakia	n/a	n/a	n/a	1,884,846	1,899,059	1,913,030	1,925,631	1,940,494	1,954,938	1,969,969	1,987,153
Slovenia	696,749	706,000	712,000	719,000	785,000	791,000	798,000	805,000	812,000	820,000	830,000
Spain	19,401,745	19,836,527	20,376,329	21,058,241	21,762,423	22,424,820	23,174,792	23,918,413	24,626,384	25,376,597	26,230,579
Sweden	4,271,000	4,283,000	4,294,000	4,308,000	4,329,000	4,351,000	4,380,000	4,404,000	4,436,000	4,470,000	n/a
UK	24,913,000	25,095,000	25,281,000	25,462,000	25,618,900	25,799,000	25,986,900	26,197,500	26,418,200	26,651,700	n/a
Iceland	n/a	n/a	106,119	107,930	110,290	112,978	115,771	120,165	123,937	129,894	133,145
Norway	1,904,225	1,923,333	1,942,440	1,961,548	1,982,404	2,002,930	2,025,739	2,054,592	n/a	2,111,917	2,139,986
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	2,965,516	2,976,229	2,990,100	3,006,488	3,022,905	n/a	n/a
Ukraine	18,858,000	n/a	18,921,000	18,960,000	19,023,000	19,049,000	19,075,000	19,132,000	n/a	n/a	n/a
USA	117,282,000	119,044,000	119,628,000	121,480,000	119,297,000	120,834,000	122,187,000	123,925,000	126,012,000	127,958,000	130,113,000

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*
- *Luxembourg: Households only*
- *Czech, Slovenian, Spanish and UK series has been revised*

6. Housing Starts

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	48,000	46,000	39,000	37,000	36,450	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	40,564	41,670	41,087	42,047	39,374	41,134	46,193	54,569	57,125	52,388	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
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	35,027	32,900	32,377	28,983	33,606	36,496	39,037	40,381	43,747	43,796	43,531
Denmark	18,470	17,740	16,243	20,849	23,272	27,954	29,340	33,342	32,456	19,620	14,282
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	31,597	34,590	32,309	27,625	28,154	31,377	32,380	34,275	33,353	30,478	24,500
France	285,000	317,000	309,500	303,000	302,900	322,600	363,400	410,200	420,900	435,400	368,600
Germany	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	19,005	22,912	22,620	42,147	42,279	52,549	52,892	44,206	40,996	38,443	25,482
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	77,691	77,709	75,602	48,876	22,852
Italy	150,421	162,034	177,615	169,573	171,269	174,352	n/a	296,201	317,391	309,379	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
Lithuania	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
Malta	n/a	n/a	n/a	n/a	n/a	6,128	6,707	9,081	10,409	11,343	6,836
Netherlands	85,871	83,400	80,100	74,700	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	91,000	90,000	125,000	114,000	77,000	82,000	97,000	102,038	137,962	185,117	174,686
Portugal	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	32,950	31,702	37,798	49,795	66,817	87,643	143,139
Slovakia	16,857	11,168	9,884	12,128	14,607	14,065	16,586	19,796	20,592	18,116	28,321
Slovenia	6,000	7,000	5,000	6,000	5,000	7,000	6,000	8,000	9,000	11,000	7,000
Spain	407,650	511,854	534,010	523,839	543,105	623,084	691,876	716,035	760,179	615,976	360,044
Sweden	12,700	14,600	16,900	19,500	19,100	22,100	27,400	32,000	45,600	28,100	22,000
UK	187,580	190,340	188,100	192,900	192,740	206,740	227,170	227,170	230,470	216,730	n/a
Iceland	1,016	1,266	1,643	1,811	2,360	2,688	2,751	4,393	3,746	4,446	3,212
Norway	19,646	20,492	22,536	24,191	22,216	22,263	29,399	30,800	32,730	31,223	24,852
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	765,600
Serbia	n/a	n/a	9,975	8,789	12,739	10,406	14,560	17,000	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
USA	1,616,900	1,640,900	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

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, National Statistics Offices, Eurostat, US Bureau of Census

Note:

- *n/a: figures not available*
- *UK series has been revised*
- *Slovenian series has been revised*

7. Housing Completions

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	57,489	59,447	53,760	45,850	41,914	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	n/a	n/a	40,253	38,255	36,386	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	8,267	12,059	13,270	18,864	20,924
Cyprus	6,599	6,327	5,083	6,641	6,059	8,734	11,013	16,416	n/a	n/a	n/a
Czech Republic	22,183	23,734	25,207	24,759	27,291	27,127	32,268	32,863	30,190	41,649	38,380
Denmark	18,465	17,514	16,462	17,317	18,927	24,497	27,285	28,106	28,284	28,646	19,983
Estonia	882	785	720	619	1,135	2,435	3,105	3,865	5,068	7,073	5,300
Finland	29,842	28,939	32,740	30,592	27,171	28,101	30,662	34,177	33,683	35,264	30,341
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Germany	500,718	472,805	423,062	326,197	289,601	268,096	278,008	242,316	249,436	210,739	195,500
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	20,323	19,287	21,583	28,054	31,511	35,543	43,913	41,084	33,864	36,159	36,075
Ireland	42,349	46,512	49,812	52,602	57,695	68,819	76,954	80,957	93,419	78,027	51,724
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	1,351	1,063	899	800	794	828	2,821	3,807	5,862	9,319	8,084
Lithuania	4,176	4,364	4,463	3,785	4,562	4,628	6,804	5,900	7,286	9,315	11,829
Luxembourg	2,572	3,067	1,671	2,342	2,475	2,199	2,155	n/a	n/a	n/a	920
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	90,516	78,625	70,650	73,200	66,704	59,629	65,314	67,016	72,382	80,193	78,882
Poland	80,000	82,000	87,800	106,105	97,595	162,000	108,123	114,060	115,187	133,778	165,192
Portugal	84,520	105,348	107,887	102,904	50,238	34,839	66,505	59,412	58,376	n/a	n/a
Romania	n/a	n/a	26,400	27,041	27,722	29,125	30,127	32,868	39,638	47,299	64,414
Slovakia	8,234	10,745	12,931	10,321	14,213	13,980	12,592	14,863	14,444	16,473	17,184
Slovenia	7,000	5,000	7,000	7,000	7,000	7,000	7,000	8,000	8,000	8,000	10,000
Spain	275,596	321,177	366,775	365,660	426,738	459,135	496,785	524,479	585,583	641,419	615,072
Sweden	11,500	11,700	13,000	15,400	19,900	20,000	25,300	23,000	29,800	30,500	33,200
UK	181,030	182,000	176,750	173,770	181,680	190,160	202,820	210,510	212,520	223,310	n/a
Iceland	1,427	1,381	1,258	1,711	2,140	2,311	2,355	3,100	3,294	3,348	2,968
Norway	20,659	19,892	18,873	22,147	20,856	20,526	22,809	28,853	n/a	29,677	28,069
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	10,372	10,496	10,713	13,871	16,388	19,500	n/a	n/a	n/a
Ukraine	74,000	n/a	63,000	65,000	64,000	62,000	71,000	76,000	82,000	n/a	n/a
USA	1,474,200	1,604,900	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

Source: European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census

Note:

- *n/a: figures not available*
- *UK series has been revised*

8. Building Permits

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	50,789	45,459	41,460	40,229	42,281	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	37,893	45,726	42,921	41,284	43,149	45,032	52,204	59,378	61,155	53,848	52,397
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	16,748	18,224	16,249
Cyprus	6,558	6,429	6,096	6,499	6,856	7,548	8,252	9,098	9,794	9,521	8,896
Czech Republic	36,874	47,035	45,100	45,279	45,961	51,948	51,464	47,974	49,777	47,298	47,389
Denmark	18,781	17,720	17,204	20,708	24,408	28,543	30,553	35,366	33,111	20,899	15,731
Estonia	1,133	988	1,076	1,430	3,156	3,419	9,447	9,166	12,863	8,925	5,468
Finland	33,947	39,045	36,939	30,162	31,235	35,923	35,046	37,135	35,465	32,711	26,300
France	375,100	340,800	358,800	356,200	350,900	385,300	460,800	511,700	561,700	547,800	455,700
Germany	477,707	437,584	350,549	291,084	274,120	296,854	268,123	240,468	247,541	182,336	174,595
Greece	71,790	66,327	68,580	75,757	82,648	81,978	80,842	95,032	81,301	76,969	64,800
Hungary	23,442	30,577	44,709	47,867	48,762	59,241	57,459	51,490	44,826	44,276	43,862
Ireland	16,719	23,595	26,332	23,613	19,728	20,949	27,512	25,334	22,774	22,253	17,491
Italy	31,530	31,980	35,548	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	2,256	2,838	2,277	4,077	6,003	7,246	6,414	4,507
Lithuania	n/a	n/a	2,038	2,053	2,415	2,989	4,155	5,500	7,482	8,869	8,189
Luxembourg	3,215	3,739	3,411	2,846	2,956	3,364	3,919	4,692	4,411	4,934	4,017
Malta	3,004	2,273	2,369	4,180	5,481	6,128	6,707	9,081	10,409	11,343	n/a
Netherlands	87,673	84,201	78,563	60,000	67,183	72,454	76,180	83,273	96,447	87,918	87,198
Poland	78,000	106,000	70,000	81,000	39,000	61,000	105,831	115,862	160,545	236,731	223,372
Portugal	47,998	52,004	49,673	47,647	47,194	43,095	79,236	73,112	68,615	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	43,542	51,065	56,618	61,092
Slovakia	16,857	11,168	9,884	12,128	14,607	14,065	16,586	19,796	20,592	18,116	28,321
Slovenia	n/a	5,000	4,000	4,000	4,000	5,000	6,000	6,000	8,000	9,000	8,000
Spain	429,820	515,493	535,668	499,605	524,182	636,332	687,051	729,652	865,561	651,427	264,795
Sweden	13,800	15,300	18,500	22,000	18,700	25,300	28,400	34,300	45,300	28,700	24,100
UK	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	2,336	2,319	2,287	1,466	1,177	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
USA	1,612,300	1,663,500	1,592,300	1,747,700	1,889,200	2,052,100	2,070,100	2,155,300	1,838,900	1,398,400	892,800

Source: European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census

Note:

- *n/a: figures not available*

9. Number of Transactions

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	107,714	114,577	108,073	110,973	116,142	119,935	118,777	118,331	120,813	125,056	119,923
Bulgaria	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
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	76,438	70,622	71,290	67,953	67,982	70,568	79,566	85,196	71,905	70,225	53,147
Estonia	24,036	25,896	28,494	30,700	28,622	33,901	35,744	47,280	44,925	34,300	23,203
Finland	90,467	93,736	68,540	68,757	68,112	71,374	73,939	81,208	77,121	76,000	n/a
France	658,000	742,000	785,000	778,000	792,000	803,000	804,000	802,000	n/a	n/a	n/a
Germany	623,000	567,000	483,000	498,000	500,000	492,000	441,000	503,000	442,000	455,000	446,000
Greece	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	53,005	91,979	97,819	72,647	85,124	109,058	82,867	101,831
Ireland	68,925	78,572	80,856	69,062	93,136	97,888	104,305	110,495	110,790	84,194	53,616
Italy	576,340	639,617	688,284	661,379	753,578	807,157	804,126	833,350	845,051	806,225	686,587
Latvia	n/a	n/a	22,473	31,647	40,524	51,306	63,600	68,700	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
Luxembourg	4,350	4,734	4,613	4,791	5,170	5,058	4,908	5,011	n/a	3,177	3,001
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	192,622	204,538	189,358	195,737	198,386	193,406	191,941	206,629	209,767	202,401	182,392
Poland	293,000	321,000	270,000	262,000	243,000	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	326,732	329,301	300,105	276,292	300,044	285,483	281,365	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	535,000	682,000	521,000	484,000
Slovakia	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	4,900
Spain	n/a	n/a	n/a	n/a	n/a	n/a	848,390	901,574	955,186	836,871	564,464
Sweden	48,600	56,900	51,000	50,700	51,600	54,300	56,200	59,200	58,700	64,200	57,000
UK	1,348,000	1,469,000	1,431,000	1,456,759	1,585,768	1,344,517	1,791,772	1,529,466	1,490,000	1,443,000	785,000
Iceland	n/a	n/a	n/a	n/a	n/a	8,467	10,058	9,506	7,416	9,999	3,510
Norway	136,595	144,609	151,815	156,391	158,882	161,775	167,456	177,094	179,280	183,035	166,781
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	313,000	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12,000	14,000	20,000	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
USA	5,852	6,063	6,051	6,243	6,605	7,261	7,981	8,359	7,529	6,428	5,394

Source: European Mortgage Federation National Experts, National Central Banks, National Statistics Offices, US Bureau of Census

Notes:

- *n/a: figures not available*
- *Please note that EU27 annual aggregate values on are not fully comparable on a year-on-year basis with values of the previous years, due to the lack of some national data in each year*
- *Belgium: transactions on second hand dwellings only*
- *France: new apartments as principal and secondary residence or rental*
- *Hungary: new series from 2001; new apartments excluded; urban areas only*
- *Spain: New data published by the Ministry of Housing. The data includes the transactions of all type of dwellings (new, second-hand, subsided, and so on)*
- *Ireland: estimate based on mortgage approvals*
- *Netherlands: includes commercial transactions*
- *Portugal: urban areas only - includes commercial transactions*
- *Sweden: one and two dwelling buildings only*
- *UK: England and Wales only- includes commercial transactions*

10. House Prices (national), annual % change

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	3.5%	-0.2%	0.4%	-2.8%	4.9%	3.1%	3.7%	0.0%
Belgium	4.8%	6.5%	3.9%	5.1%	7.1%	7.2%	5.5%	16.3%	11.0%	8.1%	0.7%
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	47.6%	36.5%	14.7%	23.2%	24.9%
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10.0%	15.0%	10.0%
Czech Republic	n/a	7.3%	14.4%	6.9%	23.9%	10.7%	-0.1%	1.2%	0.1%	n/a	n/a
Denmark	10.6%	8.3%	7.2%	7.9%	5.3%	5.2%	11.7%	17.0%	16.2%	4.3%	-5.1%
Estonia	n/a	n/a	n/a	n/a	16.9%	19.7%	42.7%	42.1%	20.9%	7.2%	-28.4%
Finland	10.2%	8.8%	n/a	-0.9%	7.9%	6.1%	7.1%	6.2%	8.3%	6.0%	1.2%
France	2.9%	7.5%	7.9%	8.1%	9.0%	11.5%	17.6%	14.7%	9.9%	5.7%	-2.9%
Germany	n/a	n/a	n/a	n/a	n/a	n/a	0.5%	5.7%	0.9%	-0.7%	5.2%
Greece	14.4%	8.8%	10.6%	14.4%	13.8%	5.4%	2.3%	10.9%	12.1%	4.6%	2.6%
Hungary	7.8%	30.9%	28.4%	8.6%	-1.1%	n/a	1.0%	1.7%	4.9%	6.8%	-4.5%
Ireland	28.8%	20.4%	21.3%	4.4%	13.3%	13.7%	8.6%	9.3%	11.8%	-7.3%	-9.1%
Italy	2.0%	6.7%	8.6%	7.9%	10.0%	10.7%	n/a	7.0%	8.8%	5.5%	1.3%
Latvia	n/a	n/a	n/a	n/a	14.0%	17.5%	4.9%	48.6%	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
Luxembourg	5.2%	6.5%	6.4%	10.4%	9.8%	12.2%	13.6%	11.5%	3.5%	1.5%	1.6%
Malta	8.5%	4.9%	3.2%	4.3%	6.0%	11.0%	25.2%	4.2%	9.2%	-1.8%	1.0%
Netherlands	8.4%	18.1%	15.1%	7.4%	5.2%	1.7%	3.6%	4.2%	5.0%	3.6%	-0.1%
Poland	n/a	n/a	7.2%	10.0%	-4.2%	-6.9%	n/a	n/a	n/a	n/a	n/a
Portugal	5.8%	8.6%	8.8%	5.3%	0.7%	1.3%	0.8%	2.7%	2.1%	-1.2%	-6.3%
Romania	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	24.0%	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	12.0%	13.4%	15.0%	n/a	n/a
Spain	5.8%	7.7%	8.6%	9.9%	15.7%	17.6%	17.4%	13.9%	10.4%	5.8%	0.7%
Sweden	9.6%	9.2%	11.0%	8.0%	6.3%	6.6%	9.6%	9.6%	11.4%	10.7%	2.9%
UK	10.9%	11.5%	14.3%	8.4%	17.0%	15.7%	11.8%	5.5%	6.3%	10.9%	-0.9%
EU27	2.7%	2.8%	3.6%	2.1%	3.8%	2.8%	2.1%	2.2%	2.5%	7.0%	0.3%
Iceland	6.4%	16.2%	17.0%	6.3%	4.7%	11.8%	12.8%	35.3%	12.7%	10.2%	-3.9%
Norway	8.5%	11.2%	15.7%	7.0%	5.0%	1.7%	10.2%	8.3%	13.1%	12.3%	-1.1%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
USA	5.4%	3.9%	4.1%	6.6%	9.5%	7.8%	10.0%	9.1%	0.6%	-0.8%	-8.6%

Source: European Mortgage Federation National Experts, National Statistics Offices, US Bureau of Census, OECD

Notes:

- *n/a: figures not available*
- *Belgium: averge prices of existing houses*
- *Bulgaria: average price for dwellings*
- *Germany: new series from 2003, single-family houses*
- *Denmark: second hand dwellings only*
- *Finland: new series from 2000*
- *Greece: urban areas only; series has been revised*
- *Hungary: new series from 2004; urban areas only; data for 2008 is provisional*
- *Netherlands: all dwellings; series has been revised*
- *Spain: second hand dwellings only*
- *France: second hand dwellings only*
- *Ireland: average price of all residential property approved for mortgage*
- *Italy: new residential house price index starting from 2005*
- *Latvia: average residential house prices in Riga*
- *Sweden: one and two dwellings buildings*
- *UK: Department of Communities and Local Government Index (all dwellings)*
- *Iceland: Reykjavik capital region*
- *USA: all dwellings*

11. Building Prices, annual % change

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	1.0%	0.2%	0.9%	1.1%	0.7%	0.9%	2.0%	1.8%	2.7%	3.8%	4.9%
Belgium	2.7%	1.7%	4.2%	5.7%	1.5%	2.3%	5.3%	3.4%	6.1%	2.6%	4.5%
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	2.6%	2.6%	1.1%	4.3%	4.6%	9.9%	16.8%	12.2%	n/a	n/a	n/a
Czech Republic	11.3%	0.3%	-0.6%	4.5%	2.3%	6.4%	4.7%	7.5%	5.6%	4.8%	6.2%
Denmark	2.9%	3.4%	2.3%	3.7%	2.2%	2.6%	2.0%	2.4%	4.7%	6.3%	2.9%
Estonia	9.9%	1.0%	3.3%	5.4%	3.0%	3.2%	6.1%	6.8%	14.0%	8.7%	0.9%
Finland	2.3%	2.2%	2.7%	2.7%	0.9%	2.6%	3.7%	-19.6%	3.8%	5.9%	3.9%
France	0.0%	0.9%	2.7%	3.4%	2.5%	2.4%	5.6%	2.3%	6.6%	4.1%	7.9%
Germany	-0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%	0.8%	1.6%	7.0%	2.9%
Greece	6.7%	4.8%	2.3%	2.2%	3.0%	2.5%	3.0%	3.2%	5.0%	3.4%	2.7%
Hungary	n/a	n/a	11.7%	10.4%	6.0%	3.7%	5.8%	3.8%	6.4%	6.6%	7.8%
Ireland	4.1%	4.8%	3.8%	18.2%	6.2%	2.6%	3.1%	2.7%	3.8%	4.1%	3.5%
Italy	-0.8%	1.6%	3.1%	9.8%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	-2.3%	0.1%	2.4%	6.3%	-0.6%	21.9%	13.9%	2.7%
Lithuania	-3.9%	-3.1%	-1.3%	-1.4%	0.5%	1.0%	5.0%	1.4%	2.0%	5.3%	-5.7%
Luxembourg	1.8%	2.1%	3.1%	4.2%	2.6%	2.0%	2.9%	3.1%	2.6%	3.1%	3.2%
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	3.7%	6.2%	5.0%	7.2%	10.4%	4.1%	-2.6%	2.1%	10.0%	4.9%	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.0%	2.9%	n/a	n/a
Portugal	2.6%	3.3%	3.2%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	0.0%	3.9%	6.0%	0.0%	3.5%	1.4%	7.0%	n/a	7.0%	4.9%	4.9%
Sweden	2.9%	1.5%	4.5%	4.5%	3.5%	2.6%	3.1%	3.8%	5.2%	6.3%	5.0%
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	3.5%	2.3%	3.1%	6.2%	7.3%	3.3%	4.3%	5.3%	8.6%	9.1%	16.3%
Norway	4.2%	2.8%	4.6%	5.0%	2.9%	3.7%	2.7%	3.3%	3.8%	7.4%	5.7%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
USA	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

Note:

- *n/a: figures not available*
- *Hungary: new series from 2000*
- *Spain: new series from 2005*

12. Total Outstanding Residential Loans, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	29,632	35,998	39,746	48,078	53,815	60,737	65,070	71,346
Belgium	60,373	65,789	69,988	69,240	74,460	82,900	89,414	101,092	114,105	126,383	137,126
Bulgaria	n/a	43	54	79	120	205	510	1,006	1,745	2,868	3,960
Cyprus	308	490	584	680	870	1,162	1,487	4,140	5,450	6,989	8,501
Czech Republic	n/a	n/a	n/a	n/a	1,531	2,438	3,682	6,016	8,055	12,521	16,014
Denmark	116,425	112,019	117,517	127,235	136,649	147,981	156,868	176,228	194,866	211,664	222,105
Estonia	185	215	286	387	593	954	1,500	2,618	4,278	5,625	6,216
Finland	34,360	37,240	39,990	43,370	46,873	51,025	58,125	65,946	73,750	82,058	88,367
France	263,500	285,100	305,300	324,600	350,700	385,400	432,300	503,600	577,800	651,900	700,800
Germany	1,012,998	1,118,786	1,097,914	1,122,809	1,139,830	1,156,341	1,157,026	1,162,588	1,183,834	1,155,742	1,147,869
Greece	6,844	8,593	11,272	15,652	21,225	26,775	34,052	45,420	57,145	69,363	77,700
Hungary	n/a	506	723	1,300	3,318	5,896	7,934	9,305	10,583	13,039	15,612
Ireland	20,855	26,186	32,546	38,343	47,212	59,362	77,029	98,956	123,288	139,842	148,542
Italy	84,652	101,037	117,020	123,831	142,844	173,357	206,341	243,622	276,102	305,488	311,788
Latvia	n/a	48	133	220	410	760	1,273	2,509	4,675	6,726	7,220
Lithuania	87	138	146	185	337	669	1,259	2,270	2,999	4,853	5,575
Luxembourg	4,037	4,458	5,494	6,157	6,647	7,830	8,797	10,006	11,345	13,847	15,940
Malta	n/a	292	337	768	878	1,034	1,236	1,519	1,770	2,021	2,228
Netherlands	218,935	234,385	285,252	327,045	410,973	444,381	466,379	480,236	548,778	551,530	589,532
Poland	2,252	2,745	3,968	5,764	7,061	8,693	9,642	14,646	22,795	35,966	56,476
Portugal	n/a	42,180	50,735	57,365	64,838	66,233	71,101	79,452	91,895	101,094	105,210
Romania	n/a	n/a	n/a	n/a	n/a	n/a	921	1,449	2,280	4,262	5,485
Slovakia	n/a	n/a	n/a	n/a	1,011	1,415	2,196	3,078	4,212	6,529	8,536
Slovenia	n/a	52	65	99	201	263	800	1,368	1,956	2,670	3,395
Spain	128,328	154,556	188,165	220,913	261,921	312,916	384,631	475,571	571,803	646,676	674,434
Sweden	99,135	110,417	118,896	115,979	124,144	133,732	145,491	159,025	173,581	190,245	199,055
UK	647,291	750,991	880,198	950,922	1,073,696	1,119,367	1,292,968	1,414,142	1,582,383	1,745,906	1,458,895
EU27	2,700,566	3,056,265	3,326,583	3,582,576	3,954,339	4,230,834	4,661,040	5,119,623	5,712,210	6,160,877	6,087,928
Iceland	3,640	4,384	5,333	5,233	5,759	6,412	7,551	10,553	9,828	17,710	n/a
Norway	53,377	62,148	71,416	80,370	97,129	103,460	110,967	135,287	154,937	173,954	171,743
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,500	6,859	17,463	28,813
Serbia	n/a	n/a	n/a	n/a	4	23	89	307	650	1,275	1,920
Ukraine	n/a	n/a	n/a	66	134	380	487	1,670	4,301	8,285	13,968
USA	n/a	4,615,000	6,014,891	6,808,222	7,286,842	6,899,381	7,168,871	8,125,726	8,871,349	8,733,796	8,115,782

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

Notes:

- *n/a: figures not available*
- *Please note that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with the earlier figures*
- *Cypriot, Czech, Dutch, Finnish, Norwegian and Russian series have been revised*

13. Gross Residential Loans, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	12,341	17,622	9,513	9,622	11,688	18,134	17,264	25,198	24,328	22,825	21,531
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,569
Cyprus	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	735	1,202	1,590	2,609	4,094	5,395	4,858
Denmark	37,634	29,325	18,828	33,519	33,873	52,556	46,488	77,611	49,987	43,275	36,930
Estonia	63	87	120	176	301	508	806	1,471	2,339	2,137	1,434
Finland	9,058	8,443	7,457	8,787	8,202	18,849	19,624	28,599	27,000	28,931	26,669
France	52,128	70,347	63,700	66,200	78,500	95,800	113,400	134,500	149,080	146,800	122,000
Germany	n/a	n/a	n/a	110,900	103,400	112,300	108,600	109,600	114,200	119,600	121,700
Greece	n/a	n/a	n/a	n/a	n/a	5,905	8,035	13,609	15,444	15,199	n/a
Hungary	n/a	n/a	n/a	597	2,031	n/a	n/a	1,933	2,944	2,911	n/a
Ireland	4,587	6,517	7,598	7,664	10,825	13,524	16,933	34,114	39,872	33,808	23,049
Italy	26,446	41,162	42,704	44,245	53,173	59,850	68,544	79,500	89,657	94,131	85,029
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,734	n/a	n/a	n/a
Lithuania	n/a	48	56	103	211	348	594	866	1,172	1,854	1,810
Luxembourg	1,483	1,651	1,676	1,906	2,308	2,745	3,386	3,957	4,376	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	226	266	245	205
Netherlands	60,028	78,032	69,593	72,609	81,385	95,996	87,164	114,134	119,000	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
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,752	4,550	5,369	2,769
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,119	3,648	7,864	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	672
Spain	35,910	40,959	47,420	55,265	70,527	91,387	109,028	139,319	156,408	135,576	83,780
Sweden	16,705	19,506	19,467	22,290	23,731	29,559	33,296	43,880	41,289	45,457	40,148
UK	126,691	174,132	196,551	257,486	351,028	400,789	429,166	421,585	507,875	533,287	316,384
EU27	383,075	487,832	484,682	691,369	831,918	999,452	1,063,919	1,241,316	1,357,797	1,244,966	891,537
Iceland	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,599	7,727	15,897	17,644
Serbia	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	92	188	493	585	1,837	n/a	n/a	n/a
USA	n/a	1,190,909	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

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

Note:

- *n/a: figures not available*
- *Please note that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with the earlier figures*
- *Czech and Dutch series have been revised*

14. Net Residential Loans, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	n/a	6,366	3,748	8,332	5,737	6,854	4,333	38,002
Belgium	2,568	5,417	2,478	443	4,720	6,253	6,302	10,036	10,748	11,949	10,118
Bulgaria	n/a	15	11	24	41	85	306	496	741	n/a	1,092
Cyprus	73	180	89	99	189	305	321	644	929	2,457	2,573
Czech Republic	n/a	n/a	n/a	n/a	n/a	957	1,247	2,073	1,733	4,299	2,331
Denmark	8,181	5,497	5,482	7,526	8,542	9,854	8,712	17,785	17,828	15,785	11,488
Estonia	48	30	71	101	206	361	546	1,118	1,660	1,348	584
Finland	2,430	2,880	2,750	3,380	3,503	4,816	5,497	6,945	6,808	6,865	5,500
France	9,500	21,600	20,200	19,300	26,100	34,700	45,200	65,500	74,200	74,100	48,900
Germany	60,357	68,942	40,172	27,004	19,311	20,600	7,858	5,738	3,421	-9,754	-7,561
Greece	1,197	1,749	2,679	4,380	5,573	5,309	7,274	11,368	11,725	12,218	n/a
Hungary	n/a	7	233	544	1,954	2,832	1,718	1,526	1,905	2,024	1,946
Ireland	3,659	5,331	6,360	5,797	8,869	12,151	17,787	21,927	24,332	16,554	8,700
Italy	10,050	16,384	14,982	6,811	19,013	30,513	32,980	37,281	32,480	28,121	7,565
Latvia	n/a	48	80	88	196	350	575	1,186	2,171	2,071	494
Lithuania	37	39	-18	43	146	331	591	872	1,128	n/a	n/a
Luxembourg	421	421	1,036	663	490	1,183	967	1,209	1,339	2,502	2,093
Malta	n/a	n/a	40	424	144	184	208	271	248	n/a	n/a
Netherlands	27,612	35,382	50,867	41,793	46,153	26,955	33,230	46,808	42,432	36,359	30,550
Poland	295	674	1,075	1,434	1,573	2,501	1,192	3,911	7,402	11,620	23,156
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	902	1,511	1,703	43
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,195	790	1,852	1,760
Slovakia	n/a	n/a	n/a	n/a	n/a	375	729	801	1,018	1,893	n/a
Slovenia	n/a	n/a	5	32	107	95	563	570	588	n/a	727
Spain	24,034	26,228	33,608	43,048	41,008	50,995	71,715	90,940	96,232	74,873	27,757
Sweden	158	3,611	3,742	7,488	6,975	9,097	11,760	16,009	13,998	16,663	16,546
UK	35,770	57,302	66,873	86,661	125,355	146,076	148,389	133,314	162,426	159,043	50,404
EU27	186,390	251,736	252,816	257,082	326,534	370,626	414,000	486,164	526,590	478,878	284,767
Iceland	260	541	672	805	451	684	1,175	2,142	421	n/a	n/a
Norway	4,883	4,701	7,448	8,723	10,597	12,334	12,036	18,855	20,491	18,243	17,067
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,021	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	4	19	66	218	343	625	645
Ukraine	n/a	n/a	n/a	n/a	71	267	141	1,166	2,616	4,337	6,755
USA	n/a	426,636	496,957	659,667	836,947	773,274	869,677	956,935	874,603	574,672	-32,653

Source: European Mortgage Federation National Experts, National Central Banks

Note:

- *n/a: figures not available*
- *Please note that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with the earlier figures*
- *Czech, Hungarian, Dutch and Portuguese series have been revised*

15. Total Outstanding Non Residential Loans, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	36,712	35,184	35,371	31,929	31,673	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
Bulgaria	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
Czech Republic	n/a	n/a	n/a	n/a	672	1,236	1,653	1,910	2,727	3,227	5,073
Denmark	21,625	22,705	29,679	30,892	34,977	35,923	34,524	30,680	27,068	61,527	71,046
Estonia	117	191	262	409	607	813	1,279	2,278	4,145	5,498	5,739
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
Germany	199,058	207,797	217,645	223,644	232,701	257,432	258,045	258,569	256,332	260,008	258,032
Greece	1,505	1,608	1,811	2,172	2,903	3,247	4,040	4,190	4,194	4,774	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
Ireland	3,409	4,251	4,925	6,384	8,046	7,257	10,072	11,792	16,137	18,548	17,092
Italy	58,866	66,030	69,298	74,745	78,297	80,805	93,101	104,399	121,294	138,729	131,164
Latvia	n/a	n/a	n/a	203	300	498	779	1,669	3,345	3,126	3,475
Lithuania	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
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	12,187	12,758	13,728	13,805	18,509	20,157	23,204	24,317	25,065	23,440	23,772
Poland	n/a	n/a	n/a	n/a	718	1,141	1,732	2,316	3,673	5,540	7,577
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	15,720	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,454	8,876	17,212	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	39,401
Spain	51,296	64,483	73,864	91,200	115,092	154,952	197,801	263,763	339,620	400,765	415,625
Sweden	8,008	8,781	9,609	8,375	8,015	8,181	7,434	7,314	7,015	8,436	11,500
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EU27	356,071	388,604	420,821	488,541	536,020	607,013	681,314	749,284	819,549	946,427	989,495
Iceland	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	7	13	38	49	167	n/a	n/a	n/a
USA	n/a	967,455	1,272,935	1,424,444	1,454,526	1,335,221	1,354,839	1,556,694	1,753,175	1,817,080	1,767,755

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

Note:

- *n/a: figures not available*
- *Please note that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with the earlier figures*
- *Czech series has been revised*

16. Gross Non Residential Loans, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	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
Bulgaria	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
Czech Republic	n/a	n/a	n/a	n/a	249	293	546	709	899	1,312	2,213
Denmark	10,562	10,289	4,850	9,627	9,386	13,563	8,806	14,205	6,732	17,952	17,386
Estonia	105	105	194	256	363	412	702	1,564	2,893	3,057	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
Germany	n/a	n/a	n/a	22,100	22,100	24,900	25,000	26,900	35,000	56,700	41,700
Greece	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
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Italy	16,044	22,444	23,358	21,963	26,832	29,320	31,241	35,821	43,527	42,502	38,506
Latvia	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
Luxembourg	413	552	638	828	823	1,108	779	784	906	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
Netherlands	33,564	40,270	36,988	49,226	42,972	64,138	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
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	1,520	n/a	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	15,312	23,603	39,509	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,040
Spain	23,440	28,458	27,857	34,472	44,843	63,411	86,266	110,756	127,682	121,072	99,335
Sweden	2,737	2,412	2,214	1,927	1,959	2,089	1,469	1,553	1,595	2,139	3,114
UK	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
Norway	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
Serbia	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	9	19	49	58	184	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

Source: European Mortgage Federation National Experts, National Central Banks

Note:

- *n/a: figures not available*
- *Please note that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with the earlier figures*

17. Net Non Residential Loans, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	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
Bulgaria	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
Czech Republic	n/a	n/a	n/a	n/a	n/a	449	332	218	731	456	1,876
Denmark	-3,486	1,327	892	2,035	2,557	2,443	2,944	1,970	1,604	7,240	-9,759
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,348	243
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
Germany	11,155	8,742	6,123	2,822	2,978	-6,840	-2,441	-4,673	-5,073	-5,758	-1,186
Greece	141	103	203	330	731	585	551	150	4	580	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
Ireland	585	842	674	1,459	1,662	-790	959	1,720	4,345	2,411	-1,456
Italy	34,387	7,163	4,269	5,627	3,552	2,508	12,300	11,298	16,895	11,426	-1,556
Latvia	n/a	n/a	n/a	336	103	265	322	935	1,676	-755	349
Lithuania	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
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	1,410	571	970	77	4,704	1,648	3,047	1,113	748	-1,625	332
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	860
Portugal	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	4,109	8,534	16,715	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,747
Spain	7,134	13,090	9,382	7,146	23,882	39,860	42,849	65,962	75,858	61,144	13,748
Sweden	927	159	450	-389	-448	110	-745	11	-323	599	4,608
UK	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
Norway	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
Serbia	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	39	103	7	189	n/a	n/a	n/a
USA	n/a	95,545	116,087	123,222	105,053	112,389	138,065	201,855	221,190	204,672	83,129

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

Note:

- *n/a: figures not available*
- *Please note that due to changes in the official sources for statistics on mortgage lending in Sweden, Swedish lending figures in 2008 cannot be directly compared with the earlier figures*

18. Loan-to-Value ratios for mortgage loans, national averages (%)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	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	80.0%	80.0%	n/a	80.0%	80.0%	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
Cyprus	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	55.0%	53.0%	56.0%	56.0%
Denmark	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
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	70.0%	70.0%	70.0%	70.0%
France	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	68.0%	n/a	n/a	71.0%	n/a	n/a	n/a	72.0%	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	56.0%	58.0%	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	47.0%	54.0%	58.0%	61.0%	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
Italy	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
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	75.0%	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
Malta	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	52.0%	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
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	54.0%	56.0%	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	68.4%
Slovakia	n/a	n/a	n/a	n/a	n/a	60.0%	80.0%	80.0%	85.0%	80.0%	85.0%
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	60.5%	52.0%
Spain	n/a	n/a	n/a	n/a	n/a	n/a	64.6%	64.0%	64.0%	63.5%	60.6%
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	87.2%	85.3%	84.3%	81.9%	80.0%	75.0%	72.4%	77.9%	79.8%	80.1%	77.3%
Iceland	65.0%	65.0%	65.0%	65.0%	65.0%	90.0%	90.0%	n/a	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	80.0%	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	80.0%	80.0%	80.0%	80.0%
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	70.0%	74.7%	85.0%	80.0%	75.0%
USA	78.9%	78.5%	77.8%	76.2%	75.1%	73.5%	74.9%	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, European Central Bank, National Central Banks, Federal Housing Finance Board

Notes:

- *n/a: figures not available*
- *Germany: average for clients of mortgage banks and commercial banks*
- *Iceland: first-time buyers*
- *Spain: new lending only*
- *USA: average LTV For conventional Single- Family Homes (annual National Average)*

19. Representative interest rates on new mortgage loans (%)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	6.00%	6.00%	7.13%	6.00%	5.38%	4.41%	3.90%	3.58%	3.80%	4.79%	5.32%
Belgium	5.40%	7.10%	7.25%	6.90%	6.55%	6.00%	5.15%	4.95%	5.40%	4.93%	4.99%
Bulgaria	17.80%	17.85%	15.86%	15.14%	13.14%	12.62%	10.58%	6.88%	8.50%	10.40%	10.36%
Cyprus	8.00%	8.00%	8.00%	7.00%	6.78%	6.30%	7.30%	6.22%	5.74%	5.90%	5.98%
Czech Republic	n/a	n/a	n/a	n/a	n/a	5.00%	4.74%	3.98%	4.36%	5.34%	5.69%
Denmark	6.29%	7.37%	7.24%	6.40%	5.66%	5.45%	4.97%	4.44%	5.22%	5.94%	6.58%
Estonia	12.70%	11.80%	13.10%	10.30%	7.40%	4.60%	3.70%	3.70%	4.40%	5.48%	5.70%
Finland	5.60%	5.00%	6.50%	5.30%	4.10%	3.48%	3.14%	2.99%	3.72%	4.71%	5.01%
France	5.60%	5.90%	6.40%	5.40%	5.10%	4.40%	4.25%	3.50%	3.90%	4.60%	5.20%
Germany	5.29%	6.40%	6.44%	5.87%	5.52%	5.14%	4.63%	4.19%	4.64%	5.03%	4.83%
Greece	13.75%	11.75%	7.00%	6.70%	6.70%	5.50%	4.50%	4.00%	4.35%	4.75%	5.31%
Hungary	25.01%	22.00%	17.70%	15.62%	14.05%	12.27%	11.83%	8.97%	9.80%	9.91%	11.20%
Ireland	6.00%	4.38%	6.17%	4.72%	4.69%	3.50%	3.47%	3.68%	4.57%	5.07%	5.33%
Italy	5.45%	6.10%	6.50%	5.30%	5.03%	4.75%	4.50%	4.10%	4.56%	5.20%	6.29%
Latvia	n/a	14.20%	11.40%	11.10%	8.60%	8.30%	5.00%	4.10%	4.73%	5.92%	6.62%
Lithuania	n/a	10.07%	9.93%	8.77%	6.05%	4.97%	4.52%	3.30%	4.03%	5.30%	5.45%
Luxembourg	5.00%	5.00%	5.98%	4.76%	4.40%	3.41%	3.40%	3.52%	3.95%	3.47%	4.75%
Malta	n/a	n/a	n/a	n/a	n/a	4.50%	4.34%	4.52%	4.95%	5.39%	3.98%
Netherlands	5.30%	6.00%	6.40%	5.50%	5.20%	4.90%	4.80%	4.11%	4.37%	4.96%	5.34%
Poland	n/a	n/a	n/a	n/a	9.60%	7.60%	8.10%	6.00%	5.70%	5.90%	7.10%
Portugal	5.70%	5.00%	6.80%	5.00%	5.10%	4.30%	4.10%	4.10%	5.00%	5.70%	5.90%
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7.03%
Slovakia	n/a	n/a	9.98%	9.10%	8.62%	7.21%	6.87%	4.65%	6.30%	6.23%	6.20%
Slovenia	16.20%	12.40%	15.40%	14.80%	13.50%	10.16%	7.58%	6.13%	5.64%	6.27%	6.89%
Spain	4.90%	4.40%	5.90%	4.50%	3.80%	3.18%	3.30%	3.50%	4.03%	5.06%	5.64%
Sweden	4.60%	4.40%	4.90%	4.70%	4.90%	3.70%	3.00%	2.36%	3.63%	4.75%	3.60%
UK	6.12%	5.98%	5.19%	5.48%	4.58%	4.18%	5.04%	5.23%	5.11%	5.75%	5.82%
Iceland	n/a	n/a	n/a	n/a	n/a	5.10%	4.15%	4.70%	4.95%	5.75%	5.40%
Norway	9.50%	7.10%	8.50%	8.40%	7.46%	5.78%	3.51%	3.65%	4.34%	6.05%	7.65%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.00%	6.00%	5.00%	8.00%
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	20.00%	16.00%	17.75%	14.80%	22.80%
USA	6.94%	7.43%	8.06%	6.97%	6.54%	5.82%	5.84%	5.86%	6.41%	6.34%	6.04%

Source: European Mortgage Federation, National Central Banks

Notes:

- *n/a: figures not available*
- *Czech and Hungarian series has been revised*
- *US: Representative interest rate on 30-year new mortgage loans (conventional 30-year)*

For more information on the national definitions of representative interest rates, see the annexed Explanatory Note on data

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	n/a	n/a	4,000	n/a	3,560	3,420	4,125	8,395
Belgium	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
Cyprus	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	1,638	1,956	4,452	5,543	8,245	8,098
Denmark	n/a	155,003	155,426	161,312	212,794	226,695	250,133	286,411	300,367	335,762	365,886
Estonia	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	250	1,500	3,000	4,500	5,750
France	n/a	n/a	n/a	n/a	n/a	21,079	26,816	32,133	43,012	63,555	119,092
Germany	n/a	n/a	247,484	255,873	261,165	256,027	246,636	237,547	223,306	206,489	217,367
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,000
Hungary	n/a	n/a	n/a	n/a	n/a	3,568	4,962	5,072	5,924	5,987	7,105
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	2,000	4,000	11,900	13,575	23,075
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,500
Latvia	n/a	n/a	n/a	n/a	n/a	35	54	60	63	90	95
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	14	14	14	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	150	150	150
Malta	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	2,000	7,500	15,727	20,977
Poland	n/a	n/a	n/a	n/a	n/a	160	220	558	453	676	561
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	7,850	15,270
Romania	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	370	792	1,235	1,861	3,000	3,614
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	1,184	5,313	7,334	15,177	30,100	57,111	94,707	150,213	214,768	264,894	307,464
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	55,267	92,254	126,425
UK	n/a	n/a	n/a	n/a	n/a	5,000	14,959	26,778	50,548	81,964	187,470
EU27	1,184	160,316	410,244	432,362	504,059	571,683	643,499	751,973	925,677	1,104,718	1,419,899
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	300
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,009	23,071
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	11
USA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12,937

Source: European Covered Bond Council

Notes:

- *n/a: figures not available*

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	n/a	n/a	n/a	n/a	n/a	1,029	n/a	214	2,176	1,959	1,321
Belgium	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
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	77	309	235	274	n/a	666	744	2,558	956	3,514	939
Denmark	n/a	53,217	36,067	61,262	66,352	99,727	95,009	149,708	114,014	138,066	113,234
Estonia	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	250	1,250	1,500	1,500	1,250
France	n/a	n/a	n/a	n/a	n/a	6,181	5,737	6,397	12,637	21,670	59,734
Germany	n/a	n/a	49,553	44,013	51,784	57,621	40,773	33,722	35,336	26,834	57,345
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,000
Hungary	n/a	n/a	n/a	n/a	n/a	2,961	2,381	808	1,418	331	3,331
Ireland	n/a	n/a	n/a	n/a	n/a	0	2,000	2,000	7,900	1,675	9,500
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,500
Latvia	n/a	n/a	n/a	n/a	n/a	11	22	4	20	23	11
Lithuania	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	150	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
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	5,500	8,227	5,608
Poland	n/a	n/a	n/a	n/a	n/a	123	63	224	52	206	197
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	5,850	7,420
Romania	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	258	414	455	617	600	734
Slovenia	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	4,583	2,293	8,138	15,120	27,050	39,235	55,880	67,115	56,126	48,010
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	17,569	36,638	44,220
UK	n/a	n/a	n/a	n/a	n/a	5,000	9,959	11,819	23,770	31,874	104,222
EU27	77	58,109	88,148	113,687	133,256	199,598	196,587	266,825	290,554	333,134	467,255
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0
Norway	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,009	16,726
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7
USA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Covered Bond Council

Notes:

- *n/a: figures not available*

22. Total Residential Mortgage-Backed Securities (RMBS) Issues, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	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	39	60	n/a	2,270	1,050	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
Cyprus	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
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100	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
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
France	n/a	n/a	n/a	n/a	4,590	6,080	4,690	4,000	300	n/a	n/a
Germany	n/a	n/a	n/a	n/a	3,030	2,860	1,130	1,100	6,200	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	250	741	1,500	3,600	2,805	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
Ireland	508	1,150	2,790	1,830	520	1,820	n/a	n/a	8,700	6,500	19,000
Italy	n/a	n/a	3,080	11,400	7,490	9,070	8,862	8,200	16,500	22,200	63,200
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	51	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
Luxembourg	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
Netherlands	924	3,843	7,430	9,171	17,611	17,900	16,060	25,000	26,500	35,300	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
Portugal	n/a	n/a	n/a	1,000	1,900	8,000	4,920	7,000	4,400	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	3,542	6,261	3,124	6,858	8,235	16,167	20,059	27,300	36,400	55,413	72,413
Sweden	n/a	n/a	n/a	280	1,470	1,000	1,513	n/a	n/a	n/a	n/a
UK	n/a	n/a	22,669	25,393	35,336	55,301	80,441	70,700	138,800	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
Norway	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
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100	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
USA	n/a	2,353,091	3,055,543	3,568,556	3,797,158	3,430,885	3,469,355	4,062,661	4,634,048	4,731,679	4,523,401

Source: European Securitisation Forum, Federal Reserve

Notes:

- *n/a: figures not available*

23. GDP at Current Market Prices, € million

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	189,553	197,979	207,529	212,499	218,848	223,302	232,782	244,453	257,295	270,837	282,201
Belgium	227,985	238,248	251,741	258,883	267,652	274,726	289,690	301,966	316,622	330,800	344,206
Bulgaria	11,386	12,164	13,704	15,250	16,623	17,767	19,875	21,882	25,238	28,899	34,118
Cyprus	8,532	9,163	10,079	10,801	11,170	11,785	12,728	13,659	14,673	15,636	16,948
Czech Republic	55,383	56,415	61,495	69,045	80,004	80,924	88,262	100,190	113,459	127,498	148,555
Denmark	155,163	163,200	173,598	179,226	184,744	188,500	197,070	207,756	220,069	227,665	233,331
Estonia	4,980	5,335	6,103	6,916	7,757	8,693	9,651	11,091	13,104	15,270	15,859
Finland	116,391	122,747	132,272	139,868	143,974	145,938	152,345	157,335	167,041	179,734	186,164
France	1,315,265	1,367,966	1,441,372	1,497,185	1,548,555	1,594,814	1,660,189	1,726,068	1,807,462	1,892,242	1,950,085
Germany	1,952,107	2,012,000	2,062,500	2,113,160	2,143,180	2,163,800	2,210,900	2,243,200	2,321,500	2,422,900	2,491,400
Greece	121,985	131,936	137,930	146,428	156,615	171,410	185,851	197,645	213,207	228,180	242,946
Hungary	41,931	45,075	52,025	59,512	70,714	74,682	82,326	88,863	90,045	101,077	105,244
Ireland	78,687	90,484	104,844	116,990	130,190	139,442	148,975	162,168	177,286	190,603	185,721
Italy	1,087,220	1,127,091	1,191,057	1,248,648	1,295,226	1,335,354	1,391,530	1,428,375	1,479,981	1,535,540	1,572,243
Latvia	6,015	6,818	8,496	9,320	9,911	9,978	11,176	13,012	16,047	19,936	23,115
Lithuania	9,968	10,241	12,360	13,562	15,023	16,452	18,126	20,673	23,721	28,018	32,292
Luxembourg	17,294	19,887	22,001	22,572	23,992	25,726	27,439	30,032	33,854	36,137	36,662
Malta	3,402	3,661	4,221	4,301	4,489	4,421	4,523	4,793	5,095	5,415	5,749
Netherlands	359,859	386,193	417,960	447,731	465,214	476,945	491,184	508,964	534,324	559,537	594,608
Poland	153,429	157,470	185,714	212,294	209,617	191,644	204,237	244,420	271,530	310,612	362,095
Portugal	105,760	114,193	122,270	129,308	135,434	138,582	144,128	148,928	155,216	162,756	166,197
Romania	37,436	33,388	40,346	44,904	48,442	52,613	60,842	79,587	97,718	121,431	137,035
Slovakia	19,912	19,165	22,017	23,520	25,955	29,465	34,023	38,480	44,571	54,857	64,884
Slovenia	19,029	20,410	21,435	22,707	24,527	25,736	27,136	28,712	31,014	34,471	37,126
Spain	536,917	579,942	630,263	680,678	729,206	782,929	841,042	908,792	984,284	1,052,730	1,088,502
Sweden	222,887	238,020	262,550	247,253	258,878	269,548	281,124	287,706	305,989	331,952	328,420
UK	1,279,815	1,384,378	1,573,359	1,613,355	1,678,980	1,615,984	1,745,051	1,804,586	1,912,656	2,018,828	1,812,077
EU15	7,769,889	8,177,572	8,734,894	9,057,652	9,387,048	9,552,929	10,004,766	10,369,532	10,894,826	11,444,819	11,525,534
EU27	8,142,427	8,558,093	9,172,579	9,549,499	9,910,887	10,076,680	10,577,184	11,034,525	11,641,150	12,032,724	12,215,582
Iceland	7,383	8,194	9,421	8,830	9,475	9,711	10,657	13,118	13,305	14,600	10,013
Norway	134,701	149,262	182,579	190,956	204,074	199,146	208,256	242,935	268,363	284,053	308,603
Russia	241,998	184,818	282,285	344,475	367,538	381,796	477,307	616,312	790,937	941,301	1,140,959
Serbia	n/a	17,915	26,431	13,212	16,841	18,000	19,773	21,160	25,423	30,423	33,208
Ukraine	37,404	29,782	33,980	42,707	45,099	44,365	52,325	69,465	85,175	102,543	123,359
USA	n/a	8,425,818	10,670,652	11,253,333	11,020,632	9,699,823	9,424,113	10,017,661	10,459,048	10,078,467	9,703,810

Source: Eurostat, International Monetary Fund, Bureau of Economic Analysis

Note:

- *n/a: figures not available*

24. GDP per capita at Purchasing Parity Standards (PPS), UE27=100

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	131.6	131.2	131.4	125.1	126.2	126.8	126.8	124.7	124.3	123.8	124.7
Belgium	122.8	122.9	125.9	123.5	125.0	122.9	120.7	119.4	118.4	118.0	118.4
Bulgaria	26.9	26.9	27.8	29.3	31.0	32.5	33.7	34.5	36.5	37.2	39.2
Cyprus	86.7	87.4	88.7	90.9	89.2	88.9	90.3	90.9	90.2	90.8	92.5
Czech Republic	70.5	69.5	68.5	70.2	70.4	73.4	75.1	75.8	77.4	80.2	81.3
Denmark	131.9	130.8	131.6	127.8	128.4	124.1	125.7	123.6	122.9	120.0	117.1
Estonia	42.3	42.3	44.6	46.1	49.8	54.4	57.2	61.1	65.3	67.9	65.0
Finland	114.3	115.1	117.2	115.7	115.1	112.9	116.2	114.1	114.8	115.8	115.5
France	115.0	114.8	115.4	115.7	116.0	111.8	110.0	110.6	109.1	108.9	108.1
Germany	122.4	122.1	118.5	116.6	115.2	116.5	116.4	116.9	115.7	114.7	115.6
Greece	83.3	82.7	84.1	86.5	90.2	92.1	94.0	92.8	94.1	94.8	96.5
Hungary	52.7	53.5	56.0	58.7	61.3	63.2	63.1	63.1	63.5	62.7	62.6
Ireland	121.2	126.0	131.0	132.6	137.9	140.5	142.0	144.1	147.3	150.2	143.1
Italy	119.7	117.5	116.9	117.8	111.9	110.7	106.7	104.8	103.8	101.9	99.3
Latvia	35.6	36.0	36.7	38.7	41.2	43.3	45.7	48.6	52.5	57.9	55.1
Lithuania	40.1	38.7	39.3	41.5	44.1	49.1	50.5	52.9	55.5	59.5	60.6
Luxembourg	217.4	237.3	243.7	234.1	240.3	247.7	253.4	254.0	267.0	267.2	258.4
Malta	80.5	81.0	83.6	77.9	79.5	78.4	77.1	78.2	76.7	77.7	78.9
Netherlands	128.6	130.8	134.3	133.7	133.4	129.3	129.2	130.8	130.8	130.9	132.2
Poland	47.8	48.6	48.2	47.6	48.3	48.9	50.6	51.3	52.3	53.7	56.1
Portugal	76.6	78.3	78.0	77.3	77.0	76.7	74.6	76.9	76.3	76.2	75.5
Romania	n/a	26.0	26.1	27.8	29.4	31.3	34.1	35.0	38.3	42.1	44.9
Slovakia	52.1	50.5	50.1	52.4	54.1	55.5	57.1	60.2	63.5	67.0	70.7
Slovenia	78.6	80.6	79.8	79.7	82.3	83.4	86.4	87.4	87.6	89.2	90.8
Spain	95.3	96.3	97.3	98.1	100.5	101.0	101.0	102.0	104.0	105.4	104.2
Sweden	122.5	125.3	126.7	121.4	121.1	122.6	124.8	120.3	121.4	122.2	120.2
UK	117.6	117.8	119.0	119.8	120.6	121.8	123.5	121.8	120.3	119.0	118.4
EU15	115.5	115.4	115.4	115.3	114.9	114.3	113.7	113.2	112.8	112.2	111.7
EU27	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Iceland	140.4	139.1	131.7	132.2	129.8	125.5	131.1	130.4	123.7	119.1	117.6
Norway	138.4	144.8	164.9	161.1	154.7	156.2	164.4	176.2	183.7	178.4	178.4
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
USA	159.8	161.2	158.9	154.1	151.7	153.7	155.0	156.3	155.4	152.7	151.9

Source: Eurostat

Note:

- *n/a: figures not available*

25. Real GDP growth rate, %

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	3.6%	3.3%	3.7%	0.5%	1.6%	0.8%	2.5%	2.9%	3.4%	3.1%	1.8%
Belgium	1.7%	3.4%	3.7%	0.8%	1.5%	1.0%	3.0%	1.8%	3.0%	2.8%	1.1%
Bulgaria	4.0%	2.3%	5.4%	4.1%	4.5%	5.0%	6.6%	6.2%	6.3%	6.2%	6.0%
Cyprus	5.0%	4.8%	5.0%	4.0%	2.1%	1.9%	4.2%	3.9%	4.1%	4.4%	3.7%
Czech Republic	n/a	1.3%	3.6%	2.5%	1.9%	3.6%	4.6%	6.5%	6.4%	6.0%	3.2%
Denmark	2.2%	2.6%	3.5%	0.7%	0.5%	0.4%	2.3%	2.4%	3.3%	1.6%	-1.1%
Estonia	0.0%	-0.1%	9.6%	7.7%	7.8%	7.1%	7.5%	9.2%	10.4%	6.3%	-3.6%
Finland	5.2%	3.9%	5.1%	2.7%	1.6%	1.8%	3.7%	2.8%	4.9%	4.2%	0.9%
France	3.5%	3.3%	3.9%	1.9%	1.0%	1.1%	2.5%	1.9%	2.2%	2.3%	0.4%
Germany	2.0%	2.0%	3.2%	1.2%	0.0%	-0.2%	1.1%	0.8%	3.0%	2.5%	1.3%
Greece	3.4%	3.4%	4.5%	4.2%	3.4%	5.6%	4.9%	2.9%	4.5%	4.0%	2.9%
Hungary	4.9%	4.2%	5.2%	4.1%	4.4%	4.3%	4.7%	3.9%	4.0%	1.2%	0.5%
Ireland	8.5%	10.7%	9.2%	5.8%	6.4%	4.5%	4.7%	6.4%	5.7%	6.0%	-2.3%
Italy	1.4%	1.5%	3.6%	1.8%	0.5%	0.0%	1.5%	0.1%	1.9%	1.5%	-1.0%
Latvia	4.7%	3.3%	6.9%	8.0%	6.5%	7.2%	8.7%	10.6%	12.2%	10.0%	-4.6%
Lithuania	7.5%	-1.5%	4.1%	6.6%	6.9%	10.3%	7.3%	7.6%	7.5%	8.8%	3.0%
Luxembourg	6.5%	8.4%	8.4%	2.5%	4.1%	1.5%	4.5%	5.2%	6.4%	5.2%	-0.9%
Malta	3.4%	4.1%	6.4%	-1.6%	2.6%	-0.3%	1.2%	3.8%	3.3%	3.9%	2.7%
Netherlands	3.9%	4.7%	3.9%	1.9%	0.1%	0.3%	2.2%	2.0%	3.4%	3.5%	2.1%
Poland	5.0%	4.5%	4.3%	1.2%	1.4%	3.9%	5.3%	3.6%	6.2%	6.6%	5.0%
Portugal	4.8%	3.8%	3.9%	2.0%	0.8%	-0.8%	1.5%	0.9%	1.4%	1.9%	0.0%
Romania	-4.8%	-1.2%	2.1%	5.7%	5.1%	5.2%	8.5%	4.2%	7.9%	6.2%	7.1%
Slovakia	3.7%	0.0%	1.4%	3.4%	4.8%	4.7%	5.2%	6.5%	8.5%	10.4%	6.4%
Slovenia	3.9%	5.4%	4.4%	2.8%	4.0%	2.8%	4.3%	4.3%	5.9%	6.8%	3.5%
Spain	4.5%	4.7%	5.0%	3.6%	2.7%	3.1%	3.3%	3.6%	4.0%	3.6%	0.9%
Sweden	3.7%	4.6%	4.4%	1.1%	2.4%	1.9%	4.1%	3.3%	4.2%	2.6%	-0.2%
UK	3.4%	3.5%	3.9%	2.5%	2.1%	2.8%	2.8%	2.1%	2.8%	3.0%	0.7%
EU15	2.9%	3.0%	3.9%	1.9%	1.1%	1.2%	2.3%	1.7%	2.9%	2.7%	0.7%
EU27	2.9%	3.0%	3.9%	2.0%	1.2%	1.3%	2.5%	2.0%	3.1%	2.9%	0.8%
Iceland	6.4%	4.4%	4.3%	3.9%	0.1%	2.4%	7.7%	7.5%	4.4%	5.6%	1.3%
Norway	2.7%	2.0%	3.3%	2.0%	1.5%	1.0%	3.9%	2.7%	2.5%	3.1%	2.1%
Russia	-5.3%	6.4%	10.0%	5.1%	4.7%	7.3%	7.2%	6.4%	7.4%	8.1%	5.6%
Serbia	n/a	-18.0%	4.5%	4.8%	4.2%	2.5%	8.4%	6.2%	5.7%	7.3%	5.4%
Ukraine	-1.9%	-0.2%	5.9%	9.2%	5.2%	9.6%	12.1%	2.7%	7.1%	7.9%	2.1%
USA	4.2%	4.5%	3.7%	0.8%	1.6%	2.5%	3.6%	2.9%	2.8%	2.1%	0.4%

Source: Eurostat, International Monetary Fund, OECD, Bureau of Economic Analysis

Notes:

- *n/a: figures not available*

26. Real Gross Fixed Investment in Housing, annual change (%)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	-3.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.1%	0.8%	0.7%
Belgium	-0.2%	5.0%	1.3%	-4.4%	-0.9%	3.6%	10.0%	10.1%	7.4%	5.3%	0.6%
Bulgaria	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
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	0.0%	0.0%	0.1%	-0.1%	0.0%	0.1%	11.9%	18.7%	12.2%	4.5%	-2.2%
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	9.0%	9.5%	5.9%	-10.2%	0.5%	9.5%	9.7%	5.7%	6.3%	0.0%	-2.1%
France	3.7%	7.1%	2.5%	1.4%	1.3%	2.1%	3.2%	5.8%	6.9%	2.9%	-2.6%
Germany	0.3%	1.8%	-2.5%	-6.1%	-5.8%	-1.0%	-3.0%	-3.8%	5.6%	0.3%	0.8%
Greece	8.8%	3.8%	-4.3%	4.3%	15.2%	12.3%	-1.9%	0.0%	29.1%	-6.8%	-7.7%
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	6.4%	12.9%	7.6%	1.9%	5.4%	18.3%	10.7%	13.7%	1.8%	-15.2%	-28.7%
Italy	-1.2%	1.3%	5.1%	1.5%	2.5%	3.5%	2.5%	5.2%	5.4%	3.0%	-1.6%
Latvia	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
Luxembourg	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
Netherlands	3.0%	2.8%	1.6%	3.2%	-6.5%	-3.7%	4.1%	5.0%	5.0%	5.0%	3.9%
Poland	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	n/a	n/a	n/a
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	10.9%	11.4%	10.3%	7.5%	7.0%	9.3%	5.9%	6.1%	6.0%	3.8%	-9.8%
Sweden	-0.6%	10.8%	10.0%	4.2%	10.5%	5.4%	15.4%	15.7%	13.8%	8.7%	-0.3%
UK	3.7%	1.7%	0.6%	0.3%	6.9%	1.2%	13.1%	-4.7%	8.9%	3.3%	-16.1%
EU15	3.6%	5.7%	3.2%	0.3%	3.0%	5.0%	6.8%	6.5%	9.0%	0.8%	-5.5%
EU27	3.2%	5.3%	3.0%	0.3%	2.8%	4.7%	6.3%	6.0%	8.4%	0.8%	-5.1%
Iceland	1.0%	0.6%	12.8%	12.3%	12.4%	3.7%	14.%2	11.9%	16.5%	13.2%	-31.4%
Norway	7.7%	3.0%	5.6%	8.2%	-0.7%	1.9%	16.3%	10.8%	6.6%	5.5%	-11.6%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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
USA	7.6%	6.0%	0.8%	0.4%	4.8%	8.4%	10.0%	6.3%	-7.1%	-17.9%	-20.8%

Source: Eurostat, OECD, Bureau of Economic Analysis

Note:

- *n/a: figures not available*

27. Harmonised Index of Consumer Prices (HICP), annual change (%)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	0.8%	0.5%	2.0%	2.3%	1.7%	1.3%	2.0%	2.1%	1.7%	2.2%	3.2%
Belgium	0.9%	1.1%	2.7%	2.4%	1.6%	1.5%	1.9%	2.5%	2.3%	1.8%	4.5%
Bulgaria	18.7%	2.6%	10.3%	7.4%	5.8%	2.3%	6.1%	6.0%	7.4%	7.6%	12.0%
Cyprus	2.3%	1.1%	4.9%	2.0%	2.8%	4.0%	1.9%	2.0%	2.3%	2.2%	4.4%
Czech Republic	9.7%	1.8%	3.9%	4.5%	1.4%	-0.1%	2.6%	1.6%	2.1%	3.0%	6.3%
Denmark	1.3%	2.1%	2.7%	2.3%	2.4%	2.0%	0.9%	1.7%	1.8%	2.3%	3.6%
Estonia	8.8%	3.1%	3.9%	5.6%	3.6%	1.4%	3.0%	4.1%	4.5%	6.7%	10.6%
Finland	1.3%	2.9%	2.7%	2.0%	1.3%	0.1%	0.8%	0.8%	1.3%	1.6%	3.9%
France	0.7%	0.6%	1.8%	1.8%	1.9%	2.2%	2.3%	1.9%	1.9%	1.6%	3.2%
Germany	0.6%	0.7%	1.4%	1.8%	1.4%	1.0%	1.8%	1.9%	1.8%	2.3%	2.8%
Greece	4.5%	2.1%	2.9%	3.7%	3.9%	3.4%	3.0%	3.5%	3.3%	3.0%	4.2%
Hungary	14.2%	10.0%	10.0%	9.1%	5.2%	4.7%	6.8%	3.5%	4.0%	7.9%	6.0%
Ireland	2.1%	2.5%	5.3%	4.0%	4.7%	4.0%	2.3%	2.2%	2.7%	2.9%	3.1%
Italy	2.0%	1.7%	2.6%	2.3%	2.6%	2.8%	2.3%	2.2%	2.2%	2.0%	3.5%
Latvia	4.3%	2.1%	2.6%	2.5%	2.0%	2.9%	6.2%	6.9%	6.6%	10.1%	15.3%
Lithuania	5.4%	1.5%	1.1%	1.6%	0.3%	-1.1%	1.2%	2.7%	3.8%	5.8%	11.1%
Luxembourg	1.0%	1.0%	3.8%	2.4%	2.1%	2.5%	3.2%	3.8%	3.0%	2.7%	4.1%
Malta	3.7%	2.3%	3.0%	2.5%	2.6%	1.9%	2.7%	2.5%	2.6%	0.7%	4.7%
Netherlands	1.8%	2.0%	2.3%	5.1%	3.9%	2.2%	1.4%	1.5%	1.7%	1.6%	2.2%
Poland	11.8%	7.2%	10.1%	5.3%	1.9%	0.7%	3.6%	2.2%	1.3%	2.6%	4.2%
Portugal	2.2%	2.2%	2.8%	4.4%	3.7%	3.3%	2.5%	2.1%	3.0%	2.4%	2.7%
Romania	59.1%	45.8%	45.7%	34.5%	22.5%	15.3%	11.9%	9.1%	6.6%	4.9%	7.9%
Slovakia	6.7%	10.4%	12.2%	7.2%	3.5%	8.4%	7.5%	2.8%	4.3%	1.9%	3.9%
Slovenia	7.9%	6.1%	8.9%	8.6%	7.5%	5.7%	3.7%	2.5%	2.5%	3.8%	5.5%
Spain	1.8%	2.2%	3.5%	2.8%	3.6%	3.1%	3.1%	3.4%	3.6%	2.8%	4.1%
Sweden	1.0%	0.6%	1.3%	2.7%	2.0%	2.3%	1.0%	0.8%	1.5%	1.7%	3.3%
UK	1.6%	1.4%	0.8%	1.2%	1.3%	1.4%	1.3%	2.1%	2.3%	2.3%	3.6%
EU15	1.3%	1.2%	1.9%	2.2%	2.1%	2.0%	2.0%	2.0%	2.0%	2.3%	3.6%
EU27	1.3%	1.2%	1.9%	2.2%	2.1%	2.0%	2.0%	2.2%	2.2%	2.3%	3.7%
Iceland	1.3%	2.1%	4.4%	6.6%	5.3%	1.4%	2.3%	1.4%	4.6%	5.0%	12.8%
Norway	2.0%	2.1%	3.0%	2.7%	0.8%	2.0%	0.6%	1.5%	2.3%	0.7%	3.4%
Russia	n/a	n/a	18.6%	15.1%	12.0%	11.7%	10.9%	12.7%	9.7%	9.0%	11.4%
Serbia	30.0%	41.1%	70.0%	91.8%	19.5%	11.7%	10.1%	17.3%	12.7%	6.5%	11.7%
Ukraine	10.6%	22.7%	28.2%	12.0%	0.8%	5.2%	9.0%	13.4%	9.0%	16.6%	22.3%
USA	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	3.8%

Source: Eurostat, IMF

Note:

- *n/a: figures not available*
- *Please note that for non-EU countries the national Consumer Price Indices are given, which are not strictly comparable with the HICPs.*

28. Population, 000s

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Austria	7,971	7,982	8,002	8,021	8,065	8,102	8,140	8,207	8,266	8,316	8,332
Belgium	10,192	10,214	10,239	10,263	10,310	10,356	10,396	10,446	10,511	10,584	10,667
Bulgaria	8,283	8,230	8,191	7,929	7,892	7,846	7,801	7,761	7,719	7,699	7,640
Cyprus	675	683	690	698	706	715	730	749	766	788	789
Czech Republic	10,299	10,290	10,278	10,267	10,206	10,203	10,211	10,221	10,251	10,323	10,381
Denmark	5,295	5,314	5,330	5,349	5,368	5,384	5,398	5,411	5,427	5,460	5,475
Estonia	1,393	1,379	1,372	1,367	1,361	1,356	1,351	1,348	1,345	1,343	1,340
Finland	5,147	5,160	5,171	5,181	5,195	5,206	5,220	5,237	5,256	5,288	5,300
France	59,935	60,159	60,513	60,915	61,326	61,735	62,130	62,519	62,999	63,575	63,753
Germany	82,057	82,037	82,163	82,260	82,440	82,537	82,532	82,501	82,438	82,262	82,217
Greece	10,808	10,861	10,904	10,931	10,969	11,006	11,041	11,083	11,125	11,172	11,213
Hungary	10,280	10,253	10,222	10,200	10,175	10,142	10,117	10,098	10,077	10,056	10,045
Ireland	3,694	3,732	3,778	3,833	3,900	3,964	4,028	4,109	4,209	4,343	4,401
Italy	56,904	56,909	56,924	56,961	56,994	57,321	57,888	58,462	58,752	59,319	59,619
Latvia	2,421	2,399	2,382	2,364	2,346	2,331	2,319	2,306	2,295	2,275	2,271
Lithuania	3,562	3,536	3,512	3,487	3,476	3,463	3,446	3,425	3,403	3,376	3,367
Luxembourg	422	427	434	439	444	448	452	455	460	477	484
Malta	377	379	380	391	395	397	400	403	404	409	410
Netherlands	15,654	15,760	15,864	15,987	16,105	16,193	16,258	16,306	16,334	16,374	16,405
Poland	38,660	38,667	38,654	38,254	38,242	38,219	38,191	38,174	38,157	38,111	38,115
Portugal	10,110	10,149	10,195	10,257	10,329	10,407	10,475	10,529	10,570	10,619	10,618
Romania	21,989	21,946	21,908	21,876	21,833	21,773	21,711	21,659	21,610	21,523	21,529
Slovakia	5,388	5,393	5,399	5,379	5,379	5,379	5,380	5,385	5,389	5,397	5,401
Slovenia	1,985	1,978	1,988	1,990	1,994	1,995	1,996	1,998	2,003	2,019	2,026
Spain	39,639	39,803	40,050	40,477	40,964	41,664	42,345	43,038	43,758	44,874	45,283
Sweden	8,848	8,854	8,861	8,883	8,909	8,941	8,976	9,011	9,048	9,148	9,183
UK	58,395	58,580	58,785	59,000	59,218	59,438	59,700	60,060	60,393	60,703	61,186
EU15	375,072	375,941	377,213	378,756	380,536	382,701	384,978	387,373	389,545	402,093	329,777
EU27	480,383	481,076	482,188	482,958	484,541	486,520	488,632	490,898	492,965	495,833	497,450
Iceland	272	276	279	283	287	288	291	294	300	308	313
Norway	4,418	4,445	4,478	4,503	4,524	4,552	4,577	4,606	4,640	4,681	4,737
Russia	n/a	n/a	n/a	146,300	145,200	145,000	144,200	143,500	142,800	142,102	142,000
Serbia	7,800	7,773	7,661	7,736	7,500	7,481	7,463	7,441	7,463	7,448	7,463
Ukraine	50,200	49,900	48,923	48,457	48,004	47,623	47,281	46,930	46,646	46,119	45,963
USA	275,854	279,040	282,172	285,040	287,727	290,211	292,892	295,561	298,363	301,290	304,059

Source: Eurostat, IMF, US Bureau of Census

Note:

- *n/a: figures not available*

Annex: Explanatory Note on data

Macroeconomic data

Macroeconomic data on GDP, inflation, unemployment and population are mainly from Eurostat. They are from the International Monetary Fund, 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. E.g. 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.

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

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: Interest rate (December) 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 months CIBOR)

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

FR: The rate communicated is the 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

IE: Variable interest rate (≤1)

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)

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

LU: Variable interest rate (≤1)

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

NL: Interest rate on total new lending for house purchase

PL: Variable interest rate (≤1)

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

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

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)

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

EMF Hypostat 2008

HYPOSTAT 2008 A REVIEW OF EUROPE'S MORTGAGE AND HOUSING MARKETS

EUROPEAN MORTGAGE FEDERATION