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HYPOSTAT 2005

A review of Europe's Mortgage and Housing Markets

HYPOSTAT 2005

DISCLAIMER

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HYPOSTAT 2005

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ANALYSIS

KEY FACTS

> **Mortgage market size:** Mortgage loans outstanding at the end of 2005 amounted to €5.1 trillion for the EU 25. The mortgage market grew by 11%, which is above the average growth rate of 9.4% recorded over the past 10 years.

> **The largest market:** The UK has the largest mortgage market in the EU 25, with €1.4 trillion mortgage loans outstanding. It is followed by Germany with €1.2 trillion outstanding.

> **The smallest market:** The smallest mortgage market in the EU 25 is in Slovenia with €1.3 billion mortgage loans outstanding.

> **Mortgage debt/GDP:** In 2005 the mortgage debt to GDP ratio for the EU 25 was 47.5% and increased from 44.5% in 2004.

> **House prices:** In Europe house prices are still growing at a sustained pace in most countries, but a slow down has nevertheless become visible in some. House prices continued to rise substantially in countries such as Denmark (17.0%), Belgium (16.3%) and Greece (10.3%), whereas a slowdown has been noted in France (14.7%), Malta (10.3%), Spain (12.8%) and the UK (5.6%).

> **Interest rates:** Interest rates reached historical lows in most of the EU countries during the 3rd quarter 2005. They started increasing again at the end of 2005, after the European Central Bank rose the repo rate.

> **Households' debt servicing burden:** Despite the strong increase in mortgage debt, the decrease in interest rates meant that the debt-servicing burden, which comprises interest payments and repayments of the principal, remained stable at approximately 12% of disposable income during the past 15 years.

> **Housing supply:** Housing completions and building permits have increased in a number of EU countries during the last decade. However, their level varies greatly across the EU. In 2005 the number of building permits per 1000 inhabitants ranged from 1.6 in Lithuania to 17 in Spain. The number of housing completions per 1000 inhabitants ranged from 1.7 in Latvia to 19.7 in Ireland.

> **Mortgage bonds:** The volume of total outstanding mortgage bonds in Europe has increased from €794,267 million in 2004 to €876,854 million in 2005. This corresponds to an annual growth rate of 10.3%. In 2006, the volume of mortgage bonds in Europe is expected to continue to grow and the issuance of mortgage bonds will occur in two additional countries - Italy and Portugal.

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HOUSING AND MORTGAGE MARKETS IN 2005

OUTPUT, INFLATION AND LABOUR MARKET DEVELOPMENTS

In 2005, real GDP growth in the EU 25 was only 1.6% against 2.4% in 2004. In the Euro-zone, GDP growth was even weaker- 1.3%. Slower growth in the Euro zone took place in the first half of 2005 due to the temporary slowdown in world trade, the lagged effects of the Euro appreciation and rising oil prices. During the second half of 2005, economic activity strengthened again. In fact, stronger economic activity and upward revision of inflationary projections led the ECB to raise its repo rate by 0.25% in the Euro zone, the first time after having kept this rate unchanged for two an a half years. Further rises of 0.25% followed in February, June, October 2006 and a fifth rise is expected to take place before the end of 2006, bringing the ECB repo rate to 3.25%.

Output growth differs considerably within the EU 25. The strongest growing countries are among the new Member States. Latvia and Lithuania grew by 10.2% and 7.5% respectively, followed by the Czech Republic and Slovenia, which grew by 6%. Strong economic activity in most of the new Member States was sustained by strong domestic demand, which was fostered by strong growth in private consumption. The countries that had the lowest growth rates in the EU were Portugal (0.6%) and Italy (0.0%). In Portugal, poor economic growth was due mainly to the low trend in economic productivity, combined with a fall in investments and a dramatic decline in the contribution of exports to GDP growth. In Italy the 0% growth was due in large part to low household consumption and low exports. In fact, exporters have increasing difficulties in taking advantage of the rapid expansion of the world trade, owing to structural factors that hamper both the redirection of production to high-tech sectors and progress in the reorganization of, and innovation in, industry.

Inflation in the EU 25 and in the Euro-zone was 2.2% and 2.1%, respectively, only one point above last year. In fact, despite the increase in oil prices, inflationary pressures remained mild. The countries that recorded the lowest inflation rates were Sweden and Finland with inflation rates of only 0.8%, far below the EU average. Conversely, most of the new Member States experienced higher inflation rates than the EU average. These were the results of strong domestic demand. The inflation rates, however, are lower than in 2004 when prices went upward due to EU accession.

The labour market shows improvements in both, the employment and the unemployment rate. In the EU 25, employment grew by 0.9% and in the Euro zone by 0.7%. Unemployment decreased from 9.1% to 8.7% in the EU 25 and from 8.9% to 8.6% in the EU 12. According to the ECB, due to weak economic activity, the increase in the Euro-area employment rate may be explained as the effect of recent labour market policies that encourage expansion of part time work and self employment. The same reasons are used to explain the decrease in the unemployment rate[1].

EU MORTGAGE MARKETS KEEP BOOMING

European mortgage markets continued to experience high growth in 2005. The total volume of residential mortgage loans outstanding increased from €4.6 trillion in 2004 to €5.1 trillion in 2005. This corresponds to a growth rate of 11%, which remains far above the growth rate of 9.4% over the past ten years (See Chart 1).

The largest mortgage market in the EU continues to be the UK with €1,414,386 million of residential lending outstanding, followed by Germany with € 1,162,588 million. The smallest mortgage markets are in the new Member States, with the smallest being in Slovenia with only €1,301 million outstanding. However, they are experiencing more sustained growth rates. In 2005 the Baltic States, Latvia, Lithuania and Estonia recorded growth rates of 97%, 94% and 80%, respectively. Many of the remaining new Member States experienced growth rates of more than 50%. Within the EU 15, the most dynamic mortgage markets were in Greece (33%) and Ireland (29%). One of the major reasons for the remarkable boom in borrowing in Greece was the announcement of a change in the

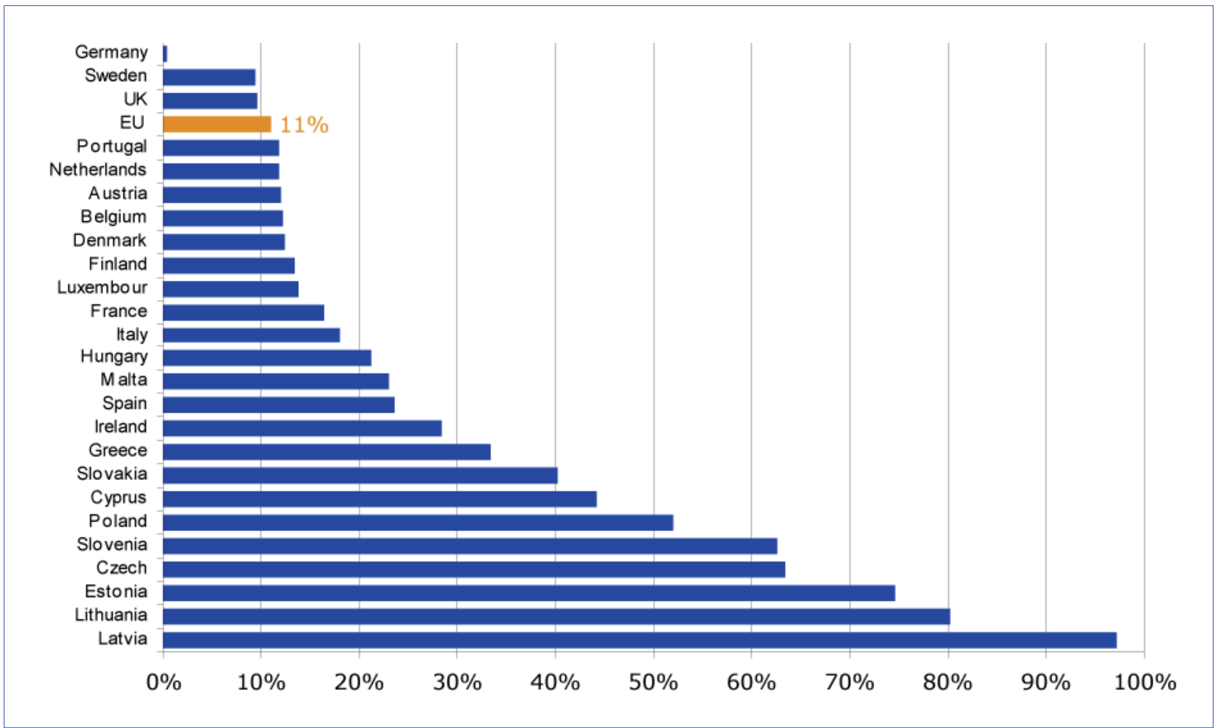
1 The ECB refers to a slight lowering of the NAIRU estimates over the past decade and explains this thorough an impact of labour market reforms.

methodology used for housing valuation (which came into force on January 1st, 2006). The rest of the EU 15 Member States, with the exception of Germany, grew at rates between 9.3% recorded in Sweden and 24% in Spain. Germany is the only country within the EU 25 that is experiencing a stagnating mortgage market.

The continued mortgage growth over the past years is due to a combination of factors, which enabled a larger share of borrowers to enter the mortgage credit market. Over the past ten years loan to value ratios and loan maturities became longer, interest rates experienced a continuous decline and a large number of innovative mortgage products were launched onto the market. In fact, in many countries loan to value ratios reach up to 100% (even 125% in some), 35 year mortgage maturities are increasingly common, lower interest rates make loans cheaper and innovative mortgage products have introduced several options that enable to better tailor consumers' specific needs. For example, it is now possible to take payment holidays in case of temporary payment difficulties, or to ensure that the instalments remain the same, even if interest rate levels change (mortgages with variable maturities).

The increase in the mortgage debt to GDP ratio in many EU countries reflects, to a large extent, the strong borrowing dynamics in Europe during the past years (See Chart 2). In the EU 25, the mortgage debt to GDP ratio increased from 32% in 1996 to 47.5% in 2005. According to data available for individual countries, changes in mortgage debt to GDP ratios varied during the period of 1996 to 2005 and ranged from very small increases in Sweden to sharp rises in the Netherlands. In Sweden the slow growth in the mortgage debt to GDP ratio can be explained by the fact that the Swedish mortgage market began to experience strong growth (after the crash in 1992) only since 2000. Moreover, GDP growth has been one of the fastest in Europe since 1992, which obviously offsets the

> CHART 1
MORTGAGE MARKET GROWTH RATES -2005



Source: European Mortgage Federation

growth in mortgage debt outstanding. In the Netherlands, such a high increase is explained by the particularly generous tax treatment for borrowers in the form of interest rate relief[2] (See Table 1).

> Table 1
Residential mortgage debt/GDP

	Mortgage Debt/GDP 1996	Mortgage Debt/GDP 2005
Belgium	23.80%	33.00%
Czech Republic	N/A	6.10%
Denmark	62.40%	94.00%
Germany	46.60%	51.70%
Estonia	N/A	24.80%
Greece	4.70%	25.10%
Spain	17.60%	52.60%
France	19.70%	29.40%
Ireland	23.80%	61.70%
Italy	7.10%	17.20%
Cyprus	N/A	16.00%
Latvia	N/A	19.60%
Lithuania	0.40%	11.00%
Luxembourg	21.20%	34.10%
Hungary	N/A	10.50%
Malta	N/A	33.80%
Netherlands	43.90%	97.10%
Austria	N/A	21.90%
Poland	1.60%	6.00%
Portugal	N/A	53.90%
Slovenia	N/A	4.80%
Slovakia	N/A	8.10%
Finland	30.00%	42.50%
Sweden	50.90%	55.20%
UK	59.10%	80.00%
EU 25	32.00%	47.50%
EU 10	N/A	8.10%

Source: European Mortgage Federation
Notes: The mortgage debt to GDP in 1996 is estimated.

2 The Dutch government is currently in the process of reducing the tax relief.

In looking at the increases in mortgage debt ratios, it is possible to see that sustained increases in mortgage debt have been experienced by two types of countries: 1) Countries that already had very high debt to GDP ratios 10 years ago and 2) countries that had low debt to GDP ratios. In fact, the Netherlands, the UK and Denmark were among the countries that had very high mortgage debt to GDP ratios in 1996. (See table 1.) Conversely, Spain and Ireland had low debt to GDP ratios in 1996 of 17.6% and 23.8%[3], respectively.

Structural features help to explain this development. The first group of countries had already well developed housing finance markets that allowed households to obtain easy access to credit. Conversely, Spain and Ireland, which had younger mortgage markets, underwent a "catch-up" phase. Moreover, financial market deregulation and innovative mortgage products during the past decade have strongly enhanced the development of their housing finance markets. At the present time, the new Member States are undergoing a similar development. These countries created mortgage markets only at the end of the 90s and beginning of 2000 and most of them have seen very high increases in mortgage debt during the past few years.

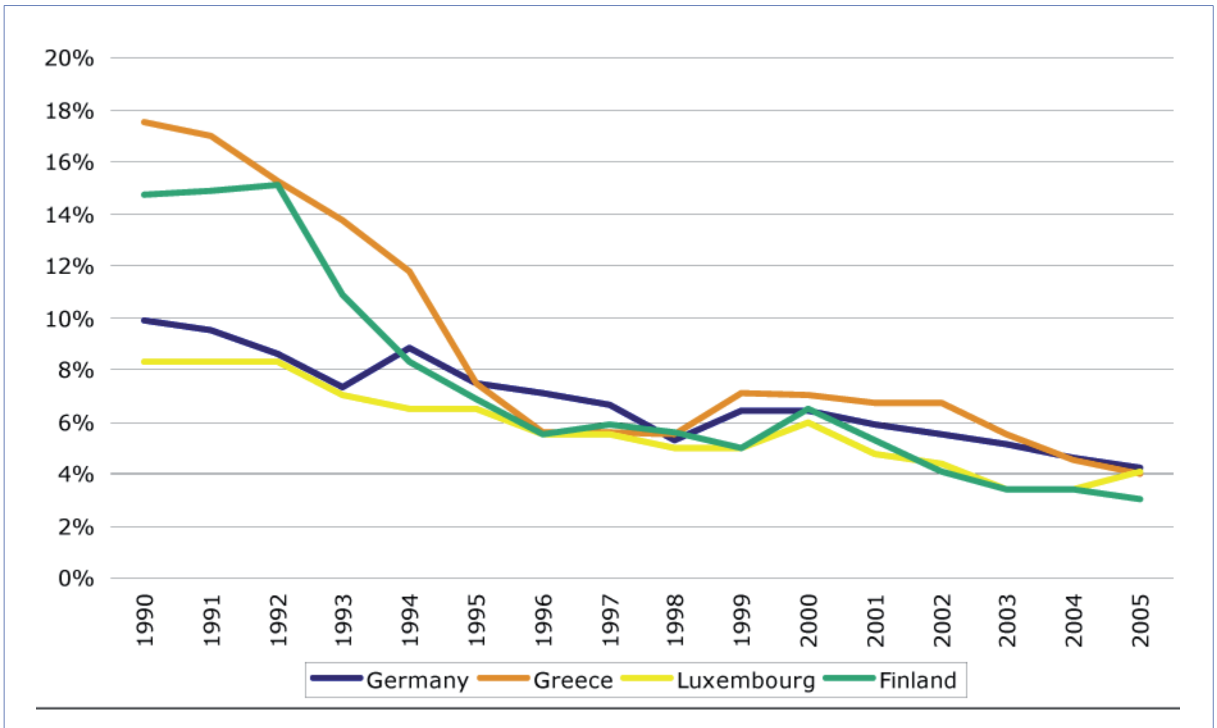
INTEREST RATES REACH HISTORICALLY LOW LEVELS

One of the major reasons for the strengthening of the mortgage market has been the decline in mortgage interest rates, which started at the beginning of the 90s. The declining trend continued until the 3rd quarter of 2005, when mortgage interest rates reached historically low levels and then began to rise due to the increase in the ECB repo rate in December 2005.

In analysing EMF data, it is possible to see how important the decline has been over the past 15

3 There are countries which had even lower debt ratios, such as Italy or Greece. They also experienced a large increase (although lower than the Spanish and the Irish increase) over the past decade.

> CHART 2
TYPICAL INTEREST RATES IN GERMANY, GREECE, LUXEMBOURG AND FINLAND 1990-2005



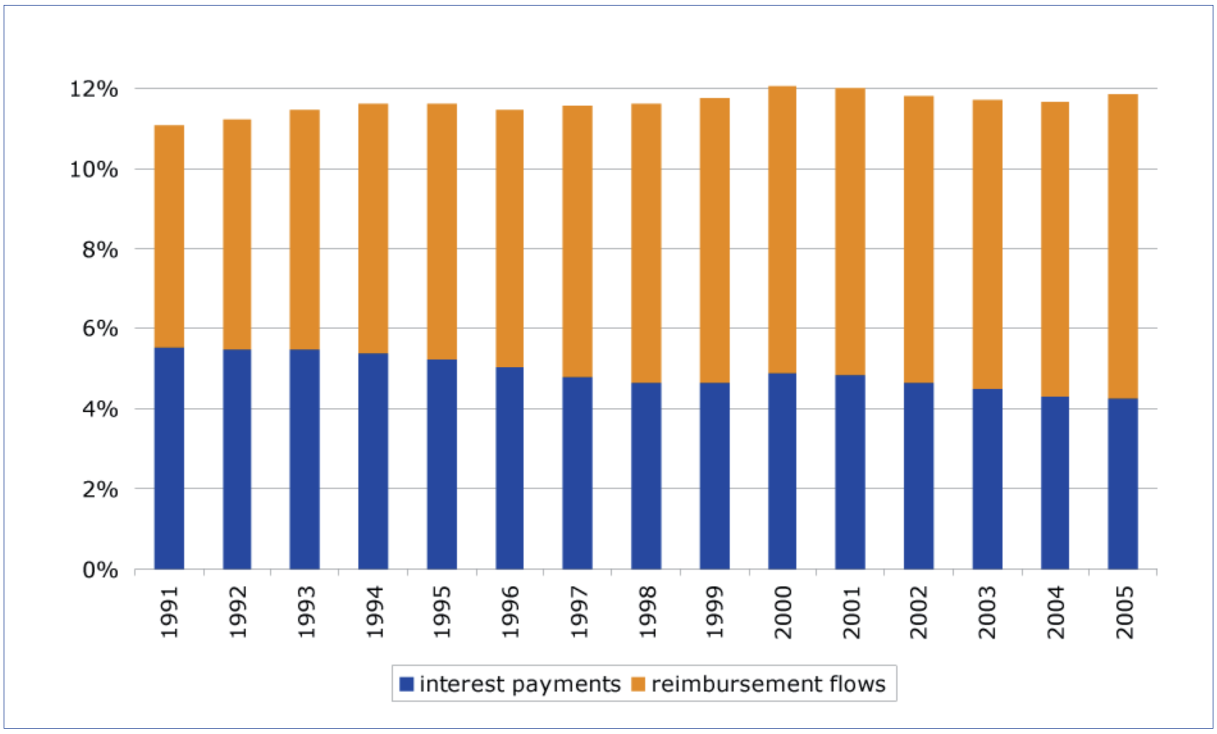
Source: European Mortgage Federation

years. Chart 2 shows the development of "typical" interest rates for Germany, Greece, Luxembourg and Finland. In Greece and Finland, interest rates at the beginning of the 90s were at two digit levels of about 20%, while in Germany and Luxembourg they were close to 10%. According to chart 2, interest rates in Greece and Finland recorded a significant fall between 1990 and 1995, when approximately half of the total decrease took place and interest rates converged to the levels of interest rates in Germany and Luxembourg. From 1996 onwards, the interest rates of the four countries declined similarly. Of course, "typical" interest rate levels differ among countries as the actual rates that borrowers pay depend upon the products chosen. In fact, European mortgage markets also vary greatly in the types of mortgage products provided. The EMF study on interest rate variability in Europe stresses that there are countries where fixed rate products are dominant and others where variable rate products are more common. The reasons for these differences stem from a combination of factors that include cultural habits, funding methods, early repayment regulations, caps and floors and the yield curve[4]. For instance, Germany is a "fixed rate country" due mainly to its funding system through covered bonds, while the other three countries analysed are "variable rate countries". Thus, it is obvious that Germany has the highest typical interest rate of these four countries.

The impact that the strong decline in interest rates had on the debt (and mortgage debt) repayment ability of European households is noteworthy. The ability of households to repay debt depends on two major factors: 1) the distribution of financial assets and liabilities among individual households and 2) their ability to meet debt servicing obligations from their income. With regard to the first factor, there is evidence that the bulk of debt is held by households in the highest income segments.

4 For more details please see EMF (2006), Study on Interest Rate Variability in Europe.

> Chart 3
Total Debt Servicing Burden of the Euro Area Household Sector 1991-2005



Source: European Central Bank, Financial Stability Review, June 2006

These also hold the largest proportion of financial wealth[5]. Thus, there does not seem to be a high risk concerning their ability to repay. With regard to the second factor, the decrease in interest rates meant that the debt-servicing burden, which comprises interest payments and repayments of the principal, remained stable at approximately 12% of disposable income during the past 15 years (See Chart 3). In fact, the increase in principal repayments has been compensated by the decrease in interest payments. This shows that households are not suffering from an increasing debt service burden, due to the decline in interest rates, in comparison to the past.

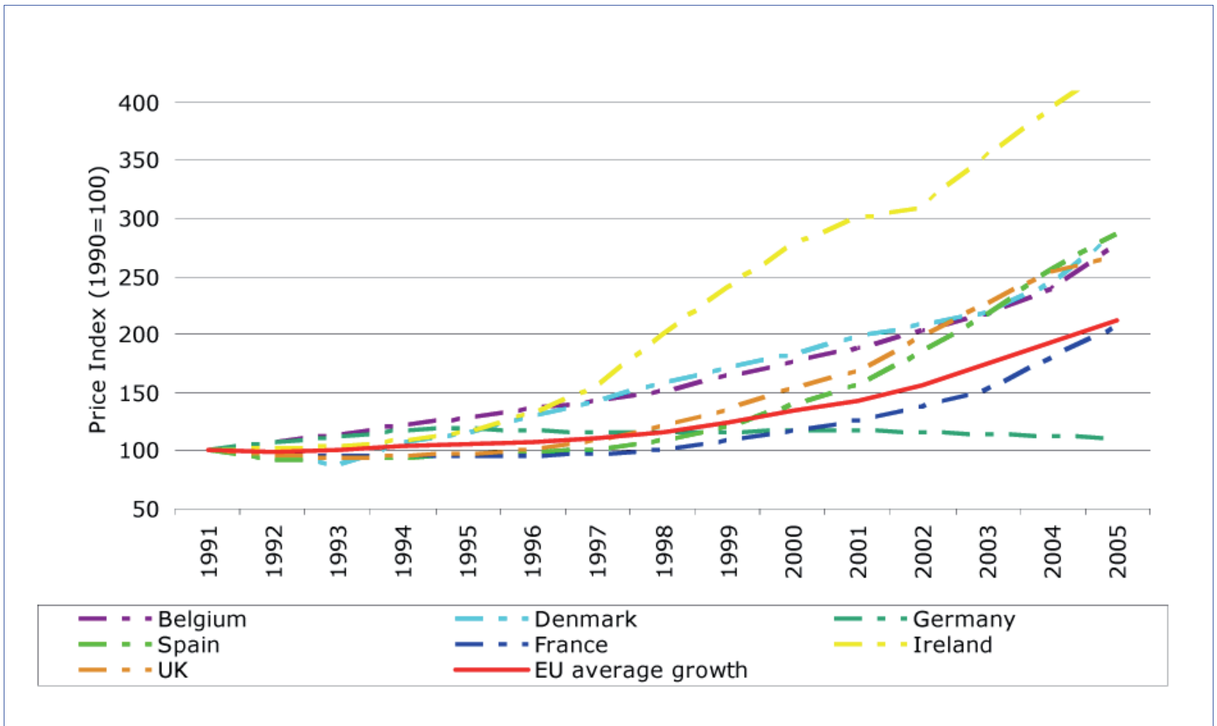
WHEN WILL HOUSE PRICE INFLATION SLOW DOWN?

House prices in the EU and a number of countries in the world have been growing at a sustained pace since the mid 90s. A recent OECD[6] paper argues that this house price boom has been of unprecedented level with regard to several factors: the size and the duration, the correlation across countries and the extent to which countries have disconnected from the business cycle. In fact, previous housing booms have never been so long or of this amplitude. Never before, have so many countries around the world (most European countries, the US, Australia and Japan) experienced rising house prices at the same time. Finally, the correlation between real house prices and output gap seems to have broken down since the mid 90s.

Chart 4 shows that house prices started to rise in 1995/1996. In 1999/2000, the house price growth rate became extremely dynamic. Ireland outperforms the other countries and is followed by Denmark and Belgium. Spain and the UK have similar house price inflation and have growth rates that are also far above the EU average. Conversely, in France house price inflation has been weaker, as house

5 See ECB (2005), "Assessing the financial vulnerability of Euro area households using micro-level data", Financial Stability Review, December 2005
6 OECD(2006), N. Girouard, M. Kennedy, P. van den Noord and C. André, Recent house price developments: The role of fundamentals; Economic department working papers nr.475

> Chart 4
House Price Developments 1991-2005



Source: European Mortgage Federation

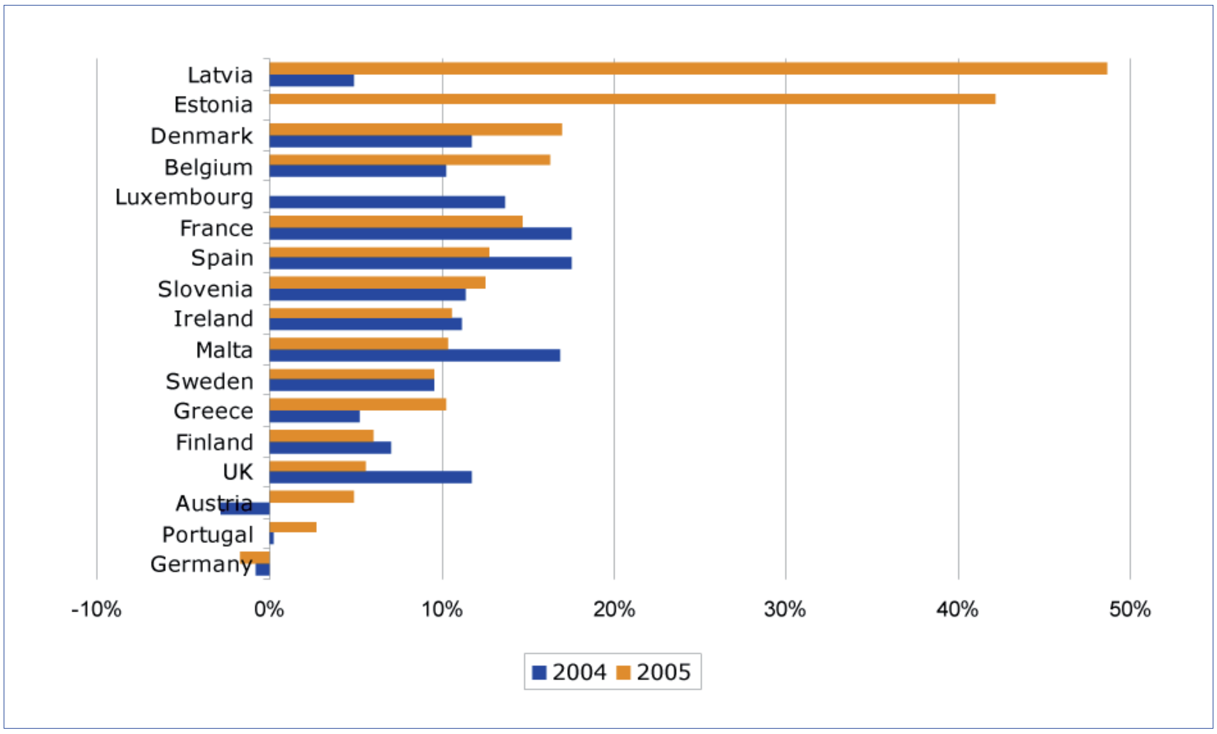
prices started to grow at a sustained pace only since the beginning of 2000. Finally, in Germany house prices did not rise at all and negative house price inflation has been recorded since 2003.

The question that arises is when will house price growth begin to slow down and if this will be dramatic or moderate. The U.S. has been experiencing a house price slowdown since the 3rd quarter of 2005. House price inflation has slowed dramatically, as the house price growth rate (on annual basis) decreased from 13.0% in the 3rd quarter 2005 to only 4.6% in the 2nd quarter 2006. This has been the slowest growth rate since 1999[7]. In Europe house prices are still growing at a sustained pace in most countries, but a slow down has nevertheless become visible in some countries. In others, house prices are still experiencing increasing growth rates (See Chart 5).

Several of the most dynamic housing markets, Malta, the UK, Spain and France, have seen house price growth declining. In Malta, which recorded the highest house price growth rate in 2004, house price inflation is still at two digit growth rates, but far below the growth rate recorded in 2004. In the UK, the housing and mortgage markets cooled down in 2005 (although they have been picking up again since the end of 2005) and, in Spain, house price inflation decreased from 17.5% in 2004 to 12.5% in 2005. Conversely, in Belgium, Denmark and Greece residential real estate prices increased substantially in 2005. Denmark and Belgium recorded the fastest house price growth rates of the EU 15[8]. In Denmark, the major reason for the sustained house price inflation is increased activity in the mortgage market, a consequence of low interest rates and the introduction of new products, particularly variable interest rates with caps at the end of 2004. These products became very popular for both new loans and re-mortgaging. In Belgium, house prices experienced a remarkable increase

7 Office of Federal Housing Enterprise Oversight, House Price Index for the Second Quarter 2006
8 House price growth rates are higher in many new Member States; Data is however, very limited for these countries.

> CHART 5
HOUSE PRICE GROWTH RATES IN 2004 AND 2005



Source: European Mortgage Federation

in 2005. The main reasons, in addition to the sustained growth rate, are the same as in Denmark, declining interest rates, innovative mortgage products and favourable lending conditions. It may be noted that despite the large rise in house prices, property in Belgium remains relatively affordable in comparison to property in some of its European neighbours. In fact, the rise in Belgian house prices could be the result of Belgium "catching up" with other EU countries[9]. Finally, Greece experienced an unexpected increase in house price growth, as in 2003 and 2004, there seemed to be signs of a deceleration. The reason for the high growth rate can be found in the extraordinary strength of demand recorded in the lending market in 2005.

In sum, some countries have started to experience lower house price inflation rates, while others are still undergoing an increase. Sooner or later, a slowdown will take place in all countries. Due to the increase in the ECB repo rate, a slowdown in residential property price inflation is becoming more likely in the Euro area. It is, however, not possible to predict if there will be a crash or not. This will depend on the extent to which real estates are overpriced in the respective EU countries. According to the European Central Bank, Euro area house price valuation measures[10] are higher than their historical average, which can be interpreted as being a sign of risk of overvaluation. The European Central Bank stresses, however, that not all countries have experienced the same house price increases and that therefore the risks of residential house price reversals are unevenly distributed across the Euro area.

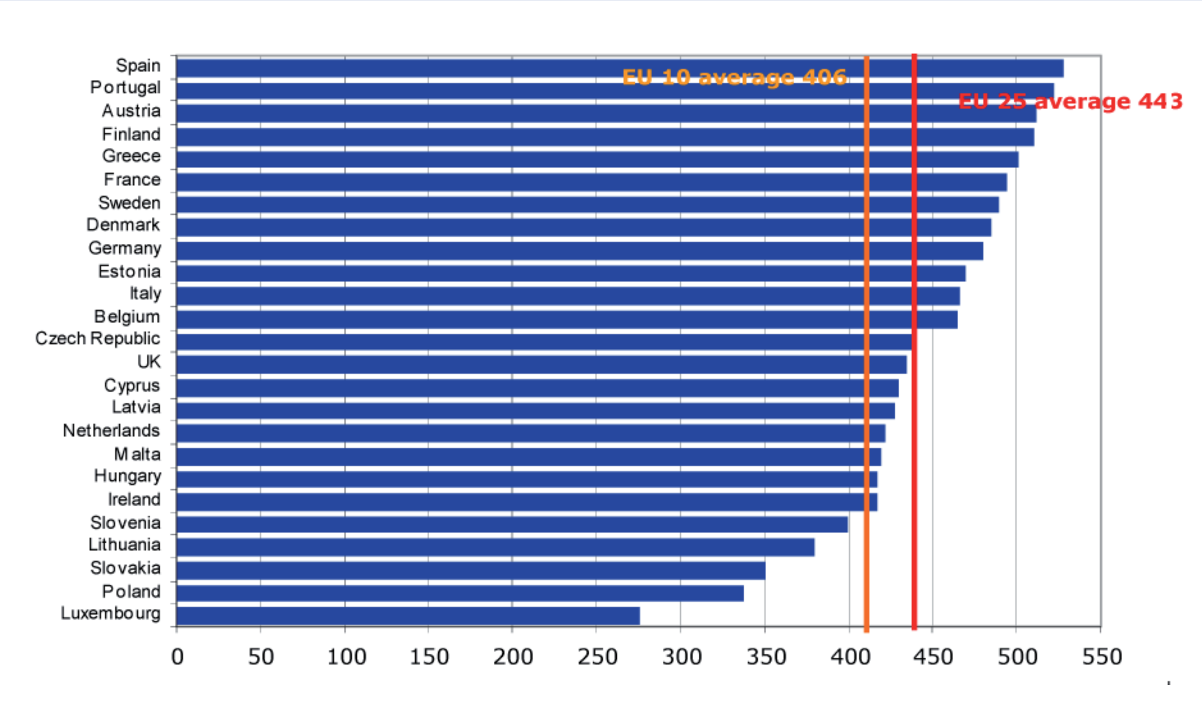
DID HOUSING SUPPLY ADJUST?

The rise in house prices during the last decade can be explained by the impact of fundamental

9 EMF Quarterly Review of European Mortgage Markets, 1st Quarter 2006

10 The ECB considers also the caveats of this approach. Please, see Monthly Bulletin, February 2006, page 69, for more details.

> CHART 6
DWELLING STOCK PER 1000 INHABITANTS - 2005



Source: European Mortgage Federation

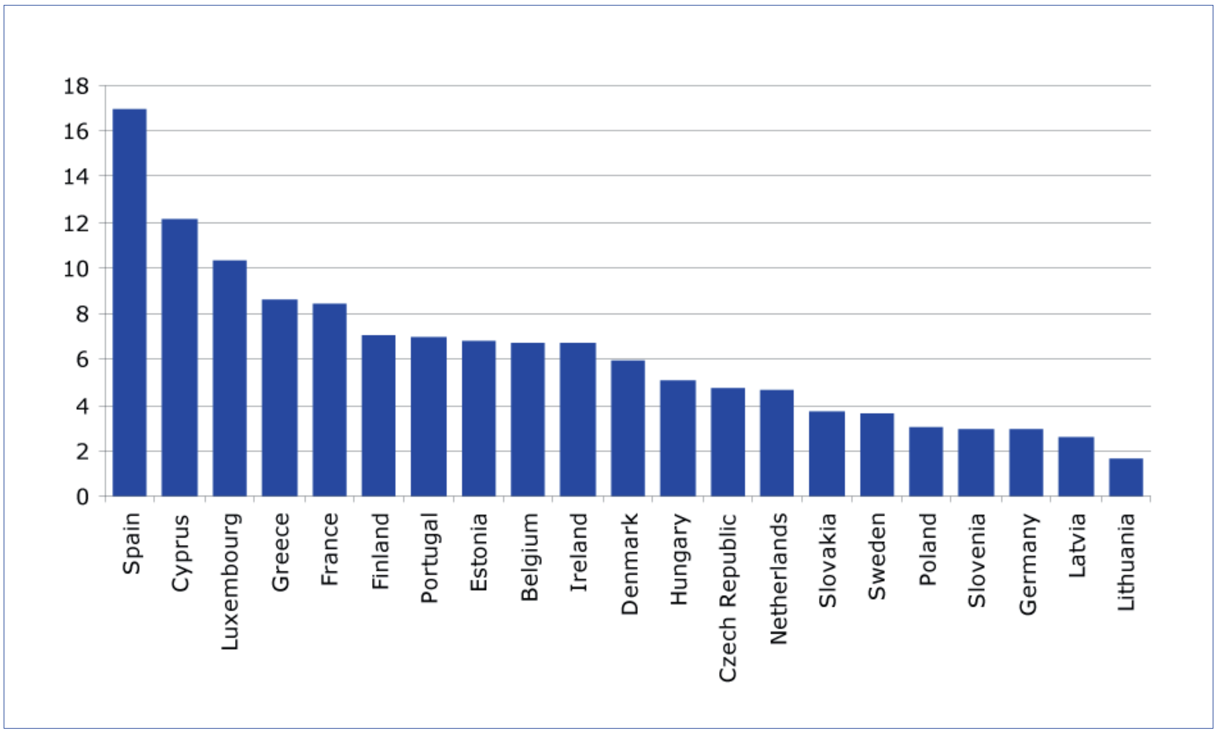
factors, such as demographics, changes in interest rates, income and housing supply. The supply of housing is an important factor, as it can alleviate in the long run pressures in the market and can contribute to lower house price increases. The supply of housing depends on land planning regulations, building permit procedures, and also the provision of social housing. EU countries have in place different systems and there is evidence that many EU countries are not responding adequately to market signals by providing sufficient extra supply. A recent UK study, the Barker Review (2003), has analysed the problems related to housing supply shortages in the UK and has set out a range of policy recommendations for improving the functioning of the UK housing market.

In Europe there are large differences in the number of dwellings per 1,000 inhabitants (See Chart 6). The average number of dwellings is 443 for the EU 25, 466 for the EU 15, and 406 for the EU 10. Spain, followed by Portugal and Austria, has the highest number, while Poland and Luxembourg have the lowest number of dwellings per 1,000 inhabitants. In Luxembourg the total number of dwellings includes only dwelling inhabited by households. This explains why it ended up at the bottom end of the ranking. Poland suffers of housing shortage, as well of poor quality of housing, as do many of the new Member States.

The number of building permits issued and the number of housing completions are indicators of changes on the supply side. The first can be interpreted in terms of expected changes, while the second measures the most recent changes.

According to EMF data, housing completions and building permits have increased in a number of EU countries during the last decade. The European Central Bank confirms this by arguing that the number of building permits in the Euro area (excluding Germany) resumed a strong upward trend after a strong decline in 2001, and that the number of housing completions has also increased

> Chart 7
Building Permits per 1000 inhabitants-2005



Source: European Mortgage Federation
Note: Data for Ireland and the Netherland is 2004 data.

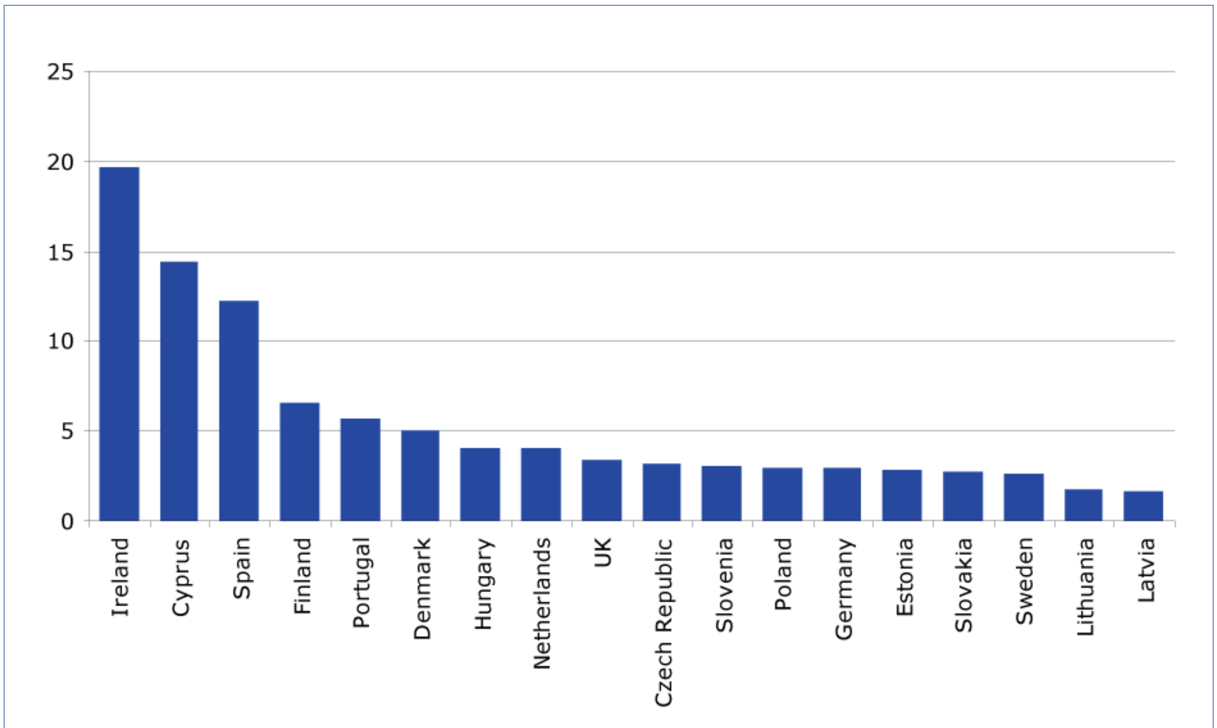
substantially as house prices accelerated upwards at the end of the 90s.

The countries that have recorded the highest number of housing completions per 1000 inhabitants over the past years have been Ireland, Cyprus and Spain. The countries with the highest number of building permits per 1000 inhabitants have been Spain, Cyprus and Luxembourg. According to 2005 data, the number of housing completions per 1000 inhabitants was 19.7 in Ireland, 14.4 in Cyprus and 12.2 in Spain. The number of building permits per 1000 inhabitants was 17.0 in Spain, 12.1 in Cyprus and 10.3 in Luxembourg (See charts 7 and 8.). It is noteworthy that in Luxembourg, after a decrease in the number of building permits issued from 2000 to 2002, the number of building permits has risen again in 2003. This is due to the fact that the State took fiscal measures to increase the supply of both, housing and land for construction purposes, in order to compensate for the dramatic increase in house prices.

In the other EU countries, the number of building permits issued and the number of housing completions per 1000 inhabitants is much lower and varies greatly: It ranges from 1.6 in Lithuania to 8.6 in Greece for building permits and from 1.7 in Latvia to 6.5 in Finland for housing completions. The countries that have the lowest increase in housing supply are the new Member States. Despite the housing shortage, new construction and renovation activity remains very low in most of these countries and there is little sign of an upward trend. In fact, private developers tend to target commercial construction and/or wealthier households by providing luxury spacious housing. As a result, residential construction for typical households remains very low.

Ireland and Spain which are the countries where housing supply responded better to housing demand over the past years are also the countries which recorded the strongest increase in house prices. Thus, the question which arises is: Why was house price inflation so strong, despite the large

> Chart 8
Housing Completions per 1000 inhabitants-2005



Source: European Mortgage Federation
Note: Data for Cyprus, the Netherlands, Slovenia and the UK is 2004 data.

increase in supply? The reply to this question can be found in a combination of factors and there are several views on this issue. The European Housing Review[11] argues that in both countries significant proportions of new housing did not serve primary residential markets, but become second homes or investments held vacant. In fact, a large share of housing in Spain has been constructed for the second home segment in order to satisfy sustained demand in popular coastal areas. Moreover, Spain has a very small rental sector, approximately 10% of the total dwelling stock and unoccupied homes amount to 14%[12]. Furthermore, the OECD stresses that supply rigidities in Spain have caused a rise in the cost of the building plots, which account for a high share of house prices. With regard to Ireland, a recent report[13] underlines that the increase in housing construction was too low and came too late to prevent the rampant housing inflation. In addition, most construction focused at the bottom end of the market, leaving a lack of additional housing at the top, which prevented first time buyers from being able to afford better houses for their families. It is not in the scope of this report to investigate the shortfalls of housing supply policies. Therefore, the report does not go into additional details on this issue. It stresses, however, that a number of EU countries do not have adequate policies concerning supply of housing. Well designed supply policies could play a principal role in stabilizing the housing market.

A BRIEF OVERVIEW ON MORTGAGE FUNDING

Mortgages are funded by three main funding methods[14] - retail deposits and other borrowing[15], mortgage bonds and mortgage-backed securities. Data on funding is very poor. However, according to raw estimates, retail deposits remain the main funding instrument, financing a share of approximately 70-75% of outstanding mortgages. These are followed by mortgage bonds with a share of 15-20% and mortgage backed securities with a share of about 5%. The mortgage bond market is developing quickly. Until now, 25 countries in Europe have adopted covered bond legislation. The volume of total outstanding mortgage bonds in Europe has increased from €794,267 million in 2004 to €876,854 million in 2005. This corresponds to an annual growth rate of 10.3%. In 2006, the volume of mortgage bonds in Europe is expected to continue to grow and the issuance of mortgage bonds will occur in two additional countries - Italy and Portugal. Italy will see a number of new issues come to market in 2006, following the enactment of its covered bond legislation, which is expected to come into force during the second half of 2006. Portugal has recently adopted new covered bond legislation, which is also expected to be implemented during the second half of 2006.

Funding markets vary greatly among individual countries in Europe. There are countries, such as Denmark and Germany, which have a strong covered bond tradition that can be traced far back in history. In Denmark, the first covered bond issue was in 1797 and the first legislation enacted in 1850, whereas in Germany the first covered bond legislation was enacted in 1769. Moreover, in Denmark, most mortgage loans (≥ 90%) are financed by the issuance of covered bonds. Thus, the ratio of mortgage bonds as a percentage of residential mortgages outstanding is close to 100%[16].

There is a second group of countries which developed mortgage bonds recently and where mortgage bonds have and/or are assuming an increasingly important role. These countries include Spain, the Czech Republic and Hungary. In Spain the covered bond market is experiencing extremely high growth, sustained by the booming mortgage and housing market. In 2005, it recorded a tremendous growth in volume from EUR 94,707 million in 2004 to EUR 153,863 million in 2005. The strong growth was mainly due to the large success of benchmark mortgage bonds[17]. The Czech Republic and

11 European Housing Review 2006 at www.rics.org

12 The data for the rental sector and unoccupied homes is from the OECD: Economic Survey of Spain 2005: « Stabilizing the housing market ». It is difficult to estimate unoccupied dwellings and data are probably overestimates. Most of empty dwelling are in Provinces where the population has declined. Moreover, there are regulatory obstacles, which encourage owners to keep their property unoccupied.

13 Evans A.W. and Hartwich O.M. (2005), Bigger, Better, Faster, More: Why some countries plan better than others?

14 Other funding methods include: wholesale funds and inter-bank loans. UK lenders rely heavily on these funding methods.

15 Other borrowing includes saving accounts (e.g. Bauspar scheme)

16 In Denmark commercial banks make up 10% of the market. And they do not issue covered bonds. They provide approximately € 20 billion of lending for housing (which is not necessarily based on a mortgage). Thus, mortgage bonds as a proportion of outstanding could be lower than 100%.

17 A Benchmark covered bonds is a Euro-denominated, bullet maturity, fixed annual coupon bond with a defined minimum outstanding volume (in most cases EUR 1 billion)

Hungary are the only new Member States that are issuing substantial volumes of mortgage bonds. Mortgage bonds represent the main funding instrument for residential lending in these countries, accounting for 74% and 55% of outstanding loans, respectively (See Chart 9).The new Member States differ in their funding systems in the same way as do the "old" EU 15. There is no particular reason why some of the new Member States have adopted the covered bond system and others prefer to fund their mortgages with retail deposits. Mortgage bonds, however, can represent a good alternative in high interest rate environments where deposits are costly[18].

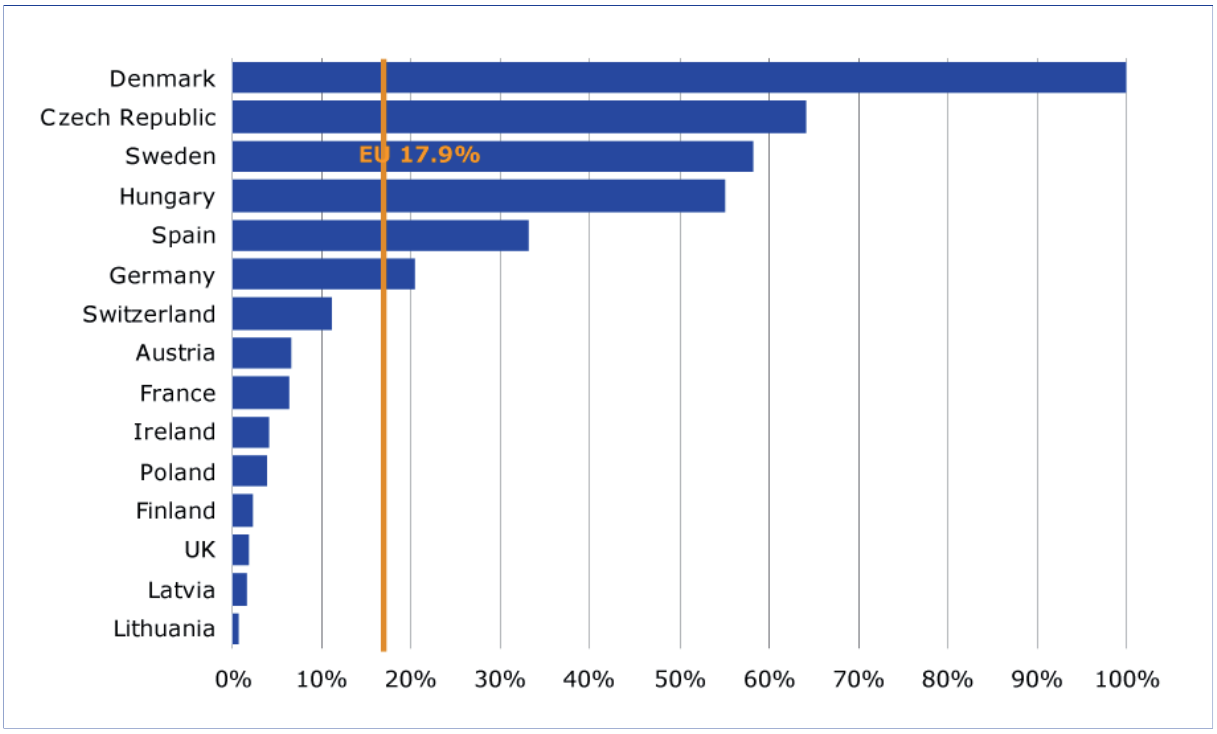
Finally, there are countries that do not have very well developed covered bond markets. A good example is the UK, which despite its very well developed mortgage market, issues very low volumes of covered bonds, with a ratio of only 1.8% of mortgages outstanding. It relies, however, on other funding options and has the largest mortgage backed securities market in Europe. In 2005, the volume of mortgage backed securities issued in the UK was EUR 70 billion, which amounted to 48% of the total volume issued. In comparison to 2004, the volume issued was, however, much weaker because of the slowdown in the housing market. It should be emphasized that, although there was an increase in the total volume of MBS issued in Europe (from EUR 120 billion to EUR 144 billion), the MBS share of total securitised issuance in Europe declined from 49% in 2004 to 44%, mainly due to the low volume issued in the UK[19].

EMERGING MORTGAGE MARKETS IN CENTRAL EASTERN EUROPE AND CIS

The history and development of mortgage markets of ex-planned economies are very similar. Bulgaria, Croatia, Romania, Montenegro, Serbia, Ukraine and Russia are undergoing the same development of

18 Mercer Oliver Wyman, Risk and Funding in European Residential Mortgage Markets, April 2005
19 ESF Securitisation, Data Report, Winter 2006

> CHART 9
MORTGAGE BONDS AS A PERCENTAGE OF RESIDENTIAL LOANS OUTSTANDING-2005



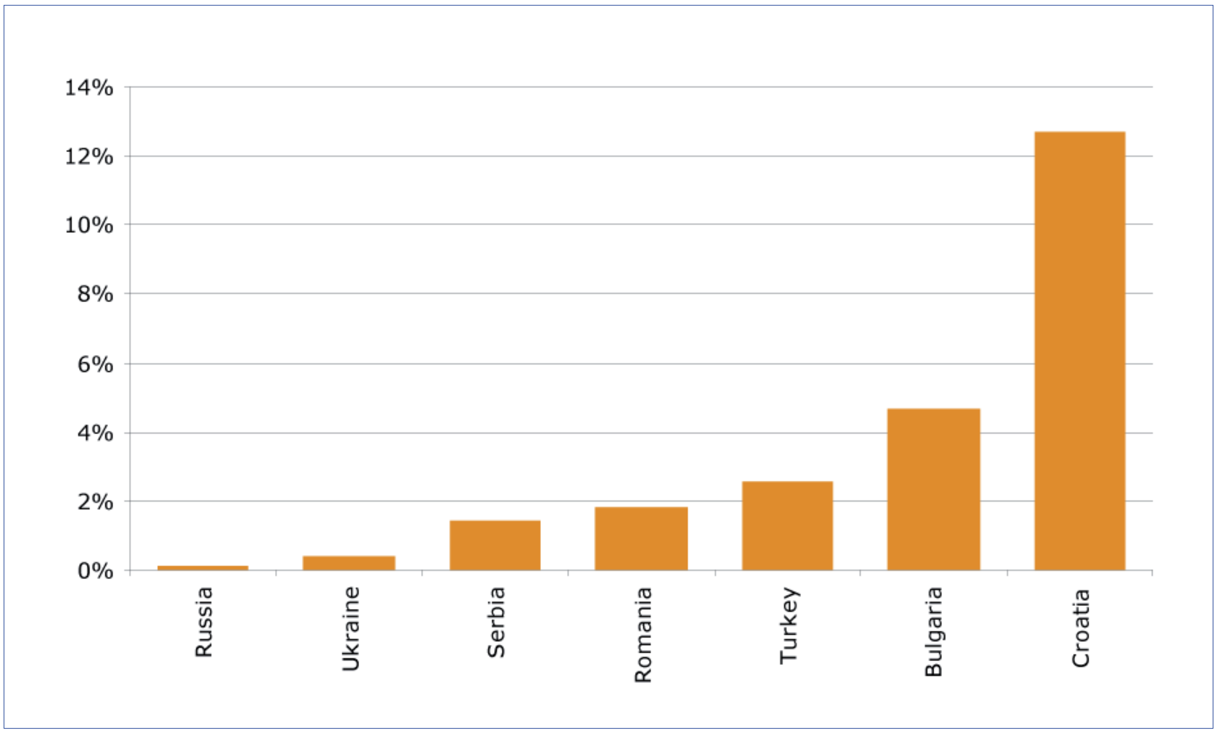
Source: European Covered Bond Council, European Mortgage Federation the new EU Member States. After the fall of the communist regime, new institutions and a new legal framework were/or are in the process of being designed for all sectors of the economy, including the housing finance sector. The emergence of a housing finance system is closely related to the emergence of a new finance sector, bank privatization and the abolition of State monopoly institutions[20]. The housing finance system is, therefore, still very thin and young. The mortgage debt to GDP ratios reflect the degree of development of these mortgage markets: In 2005 it ranges from 12% in Croatia to 0.01 % in Russia (See Chart 10), which is very low compared to the ratio of 47.5% in the EU 25 and more in line with the average ratio of 8.1% in the new Member States. For instance, the establishment of housing finance systems has been possible only at the end of the 90s, beginning in 2000 when the economy stabilized and inflation and interest rates started to decline. Inflation rates and interest rates at the beginning of the 90s were often above 100%.

As was the case for new EU member States, the countries mentioned above suffer from a poor quality of housing and a low level of housing investment. With the collapse of the communist system in most countries, housing investments did not revert to the levels of the end-of the 80s. Over the past five years, housing completions per 1000 inhabitants have remained generally below 2[21] (See Table 2).

The principal obstacles to construction are limited affordability and limited access to housing finance. Affordability is very low due to high and increasing price to income ratios and the limited financial means of most individuals in those countries. Moreover, anecdotal evidence suggests that, in many of these countries, house prices are increasing at a sustained pace. For example, in Russia, house prices increased by 24.1% in 2004[22] and in capital cities, such as Moscow, buying a property is increasingly

20 Housing Finance « New and Old Models in Central Europe, Russia and Kazakhastan », edited by Jozsef Hegedus and Raymond J. Struyk
21 Croatia is an exception. The level of completions per 1000 inhabitants is 4.06 in 2002.
22 Source: Rosstat

> Chart 10
Residential mortgage debt as a percentage of GDP-2005



Source: European Mortgage Federation

expensive. The price per square meter in Moscow is about $1,462 and increased by 172% since 2002[23].

> TABLE 2
HOUSING COMPLETIONS PER 1000 INHABITANTS

	2000	2001	2002	2003	2004	2005
BULGARIA	N/A	N/A	N/A	N/A	1.06	1.55
CROATIA	3.83	2.9	4.06	N/A	N/A	N/A
ROMANIA	N/A	N/A	N/A	1.34	1.39	1.52
SERBIA	1.35	1.36	1.43	1.85	2.2	2.61
UKRAINE	1.28	0.79	1.31	0.55	0.55	1.62

Source: European Mortgage Federation

Despite the fact that investments in construction are limited and affordability levels are low, all mortgage markets in these countries are experiencing extremely high growth rates. The high growth rate is obviously due to the small size of their mortgage markets. In 2005, the Serbian mortgage market experienced a growth rate of 244% in the volume of residential loans outstanding and Ukraine recorded a growth rate of 242%. The outlook for further mortgage market growth in these countries remains positive, as GDP and incomes are increasing. In order to build a well functioning housing finance sector, however, there is a need to continue to design and implement institutional reforms for the housing finance sector, as well as in the area of housing assistance.

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23 UNECE Discussion Paper, The Private Housing Market in Eastern Europe and the CIS, December 2005

MORTGAGE PRODUCT INNOVATION IN EUROPE

1. INTRODUCTION TO MORTGAGE PRODUCT INNOVATION

European mortgage markets are experiencing a period of strong innovation. Mortgage product innovation occurs in different forms: A larger number of borrowers have access to the mortgage market, a mortgage can satisfy different purposes beyond the acquisition of the principal residence, the interest rate can vary in diverse ways and the variety of product features offered increased.

An increasing number of borrowers have gained access to mortgage lending during the past decade. On the one hand, high LTV ratios, longer loan maturities (up to 100% or in excess of 100%) and low interest rates have allowed individuals who previously faced difficulties in entering the market, to take out a mortgage loan. On the other hand, lenders began to target specific borrower segments through certain products. For example, credit impaired loans are designed for customers who have had loan arrears, unpaid or paid defaults and judgements, or even a history of bankruptcy. Self-certification is also a new practice that allows more individuals to access the mortgage market. When the borrower's income cannot be verified, self-certification allows the borrower to declare his/her income to the lender and then obtain access to credit.

The use of mortgages is not limited to only the purchase of principal residences. Nowadays, mortgages are tailored to a variety of consumer needs (See Table 3). Anecdotal evidence suggests that loans secured on real estate for purposes, other than buying a first residence, are increasing. There are "buy to let mortgages" for a borrower, who purchases a property with the intention of letting it out to tenants. There are mortgages for the individual, who buys a holiday home in a different country. Cross-border mortgages in Europe still amount to only 1% of total mortgage lending outstanding, but demand has led to the development of these types of mortgages in several countries. For example, lenders in the UK increasingly offer mortgages for the purchase of holiday homes in "sunny" countries of Europe, such as Spain, Southern France and Cyprus. Equity withdrawal is another way to use a mortgage for a variety of purposes[24]. It allows an owner to withdraw cash from the value of the property and to use the money for a variety of needs. Equity withdrawal does occur in many EU countries, although in some countries there is no specific legislation for it and the forms of equity withdrawal differ from one country to another. New legislation is also introducing more flexibility in the ways in which equity may be withdrawn in some of the EU Member States. For example, France passed a law this year that introduced the *Crédit Hypothécaire Rechargeable*, which allows borrowers to re-borrow the amount of money that they have already paid off.

Data that differentiates between purposes of loans secured by real estate is poor. However, the ECB recently has begun to collect data on this matter at Euro area level and, according to the July 2006 ECB lending Survey, loans secured by real estate used for the purchase of second homes, investments, consumption and redemption of debt were still low, at around 10%. Over the past 12 months, however, there has been a net increase in the number of these types of loans.

The new ways in which the interest rate can vary, as well as the introduction of new product features, enable mortgage products to be better tailored to consumers' specific preferences in contract or repayment terms. Products with capped rates and guaranteed interest rates are increasingly offered by mortgage lenders. A capped rate is an interest rate that cannot increase beyond an agreed level (cap). Thus, a capped rate allows the consumer to benefit from lower variable interest rates and, at the same time, to be protected against an increase in interest rates over a certain level. A guaranteed interest rate allows the interest rate of a future mortgage to be fixed for up to one year before it is used. This option allows the borrower to fix the interest rate of the mortgage he plans to take out while he is still looking for a home to buy. Mortgages with new product features include interest only mortgages and mortgages with variable maturities. Mortgages with variable maturities allow the

24 There is often confusion between equity release and withdrawal. In this report equity withdrawal is defined as any form of withdrawal of cash from the property and differs from equity release which refers only to the lifetime mortgage.

payment of the principal to be deferred for a given period or even until the end of the loan. Mortgages with variable maturities ensure that the instalments remain the same even if the interest rate levels change. Thus, the borrower is protected against interest rate rises. In addition, there are mortgages available that offer an increasing number of flexible repayment options. For example, it is possible to take a payment holiday, to have a deferred start or lower starting payments, all of which are options that enable borrowers to match their repayment amounts to their cash flows.

> Table 3
Completeness of European Mortgage Markets 2006

A: Available; LA: Limited Availability; X: Not Available

	BE	DE	DK	ES	EL	FR	IT	IR	PT	SW	UK
Borrower type											
Self-Certified	LA	LA	x	A	X	X	X	A	X	A	A
Credit- Impaired	LA	X	LA	LA	X	X	X	A	X	LA	A
Self-employed	A	A	A	A	A	LA	A	A	A	A	A
Purpose											
2nd mortgage	A	A	A	LA	A	A	A	A	A	A	A
Overseas home	LA	LA	A	LA	X	A	LA	A	X	A	A
Buy-to-let	A	A	A	A	A	A	A	A	A	A	A
Equity Release	X	A	A	LA	X	X	A	A	X	A	A
Shared Ownership	A	A	A	X	A	X	A	A	A	A	A
Interest Rate type											
Variable	X	A	A	A	A	A	A	A	A	A	A
Referenced	A	A	A	A	A	A	A	A	A	X	A
Reviewable	X	X	A	X	A	X	A	A	A	A	A
Capped	A	A	A	A	A	X	A	A	X	A	A
Discounted	X	LA	X	X	A	X	LA	A	X	X	A
Initial fixed rate	A	A	A	A	A	A	A	A	A	A	A
Renegotiable rate	X	A	X	X	A	X	A	A	X	A	X
Mixed interest rate (A)	X	A	X	A	A	A	A	A	X	X	X
Mixed interest rate (B)	A	A	A	A	A	X	A	A	X	A	A
Repayment type											
Capital + interest rate	A	A	A	A	A	A	A	A	A	A	A
Interest only	A	A	A	LA	LA	LA	A	A	A	A	A
Flexible	X	LA	A	LA	LA	A	A	A	X	A	A
Other											
Flexible features	A	LA	X	LA	LA	A	A	A	X	LA	A
High LTV 100%+	A	LA	X	LA	X	A	A	X	X	X	A
Offset mortgage	x	LA	A	LA	X	X	A	LA	X	X	A

Sources: European Mortgage Federation and National Associations
Notes: The table has been adapted from the Mercer Oliver Wyman Study (2003)
Renegotiable interest rates: The interest rate can be renegotiated after an initial fixed period. The customer is able to choose whether, after the initial fixed period, she/he wants to enter another fixed period or switch to a variable rate.
Mixed interest rate A: At a given maturity the borrower can swap the variable rate with fixed rate or vice versa.
Mixed interest rate B: Part of the mortgage is at fixed rate and part of the mortgage at variable rate. E.g. 70% and 30%.
Belgium: In Belgium referenced interest rates are compulsory by law
Denmark: Initial fixed period rate: These loans are based on interest rates fixed from 1-11 years with the vast majority in the 1-3 year segment. The bonds behind the loans are non-callable bullet bonds. The loans are dominated by 30 year loans and after the initial fixed period rate the new interest rates on the loan are set by selling new bullet bonds (on auctions) obtaining a new fixed period rate based on the price of the bonds. Variable rate: Adjustable rate loans are based on interest rates up to 1 year – more specifically 6 months CIBOR. The bonds behind the loans are variable rate annuity bonds with maturities typically 30 year but also 20, 10 years and 5 years. The bonds can be both callable and non callable depending on the variation of the loan type.
Germany: Mortgages with flexible repayments, discounted mortgages, mortgages with flexible features, LTV ratios over 100% and offset mortgages are very rare.
Sweden: Overseas home loans: Normally the borrower has to offer security in Sweden, e.g. on the permanent Swedish home. Loans with security on the overseas home are not common.
Buy to let:-The market for "Buy-to-let" is uncommon in Sweden, but in principle there are no obstacles to a "buy-to-let" mortgage.

2. MORTGAGE PRODUCT INNOVATION IN THE UK

By Bob Pannell, Council of Mortgage Lenders

UK consumers looking for a mortgage have a multitude of options open to them. They can choose from a wide variety of different interest rate structures, opt for a mortgage with flexible features, receive a cash lump sum when taking out the mortgage, or even combine the mortgage with one's bank account. One financial website offers more than 8,000 products. Furthermore, finding a lender is not a problem for a consumer with an adverse credit history or for a borrower looking to buy a property to rent out, or the self-employed person who has an uneven income flow. There has been extensive product innovation in the UK, both in terms of new product features for mainstream mortgages and the development of new niche markets. However, at the same time the market is well regulated, which provides the consumer with protection and piece of mind.

Background

Over the past 25 years the UK mortgage market has been transformed. There has been an explosion in the number of different types of mortgage products available. Regulatory changes in the 1980s fostered a marked increase in competition that enabled a large number of new lenders to enter the market, starting with the banks in the early 1980s.

Funding in the mortgage market has also changed dramatically, moving from a situation where mortgages were funded purely from savers' deposits with building societies, to the current situation, where mortgages are funded by retail deposits, borrowing on wholesale markets, and also secondary sources, such as securitisation, structured covered bonds and whole loan sales.

The revolution in the UK mortgage market started with the election of the Conservative government in 1979. Prior to the 1980s, the mortgage market had a simple structure. Building societies collected deposits from savers and sold mortgages to their existing members. The interest rate was set by the Building Societies Association and mortgages were rationed whenever deposits were insufficient to meet loan demand. Hence, borrowers had to 'queue' for their mortgages at times. The interest rate cartel broke down in the 1980s as banks were allowed to compete alongside building societies. Banks had certain competitive advantages over building societies in areas like IT. Banks could also raise funds on wholesale markets, rather than having to rely solely on savers' deposits for funding. Centralised lenders, who only operate via intermediaries, also emerged in the 1980s. However, most were taken over subsequently or went bankrupt during the housing market slump of the early 1990s.

The housing crash of the early 1990s spawned a market for remortgaging as a low housing turnover meant that there was limited demand for new home loans. Some lenders attempted to grow their businesses by trying to poach customers from other lenders by offering them attractive remortgage deals. During the mid 1980s, the sub-prime market also developed, providing loans for those with adverse credit histories.

English law and the UK approach to regulation allow for greater product innovation than typically is found in continental European markets. In continental Europe, a more prescriptive approach is applied. This regulatory backdrop has made it easier for lenders in the UK to develop and launch new products.

Recent studies suggest that the UK leads Europe in the range of mortgage products available to the public and also in the range of niche markets served. The Mercer Oliver Wyman Study on the Financial Integration of European Mortgage Markets (October, 2003) included a market completeness index. It showed that the UK has the most complete market of 8 leading European countries based on factors such as product range, distribution, availability of information and advice, and the extent to which products are available to the entire risk spectrum of borrowers. The UK industry has developed products to serve the needs of those who would not qualify for traditional loans. The four key niche markets in the UK are those for credit impaired borrowers, self-certification (where the lender accepts the borrower's declaration of income), equity release or lifetime mortgages (for older borrowers looking to generate an income), and buy-to-let. Other more specialist niche markets are Islamic mortgages (those compliant with Sharia Law), self-build, shared ownership (usually shared with a provider of social housing) and loans in foreign currencies for those with properties abroad, or expatriates buying in the UK.

Credit impaired borrowers

The economic difficulties of the late 1980s/early 1990s meant that many households, through no fault of their own, experienced repossession or other debt problems. Since the mid 1990s, a substantial market has developed in the UK for mortgage loans for those who find it difficult to obtain mortgages on normal terms because of their credit histories. This market is also known as adverse credit, and constitutes the largest element of the sub-prime market. The exact size of the credit impaired market is unclear, but estimates suggest that it is several percent of the total market. Some 25 lenders operate in the market, including specialists in the field, such as Kensington Mortgages, but also large lenders like HBOS (through its subsidiary Birmingham Midshires Solutions), and smaller building societies. Lenders impose tighter lending criteria, such as a maximum LTV, and charge a higher rate of interest to compensate for the extra risk. With a wide range of products available, different degrees of risk are catered for with different levels of pricing.

Self-certification

A number of lenders offer mortgages for which the lender does not verify the borrower's income. This type of loan was designed primarily to help self-employed workers who do not have a sufficiently long credit history to satisfy lenders' normal requirements. As with impaired credit loans, lenders charge a higher rate of interest to compensate for the extra risk, and impose stricter lending criteria, such as a maximum LTV. Self-certification accounts for about 8% of all new loans, according to the Financial Services Authority.

Equity release

Equity release or lifetime mortgages were developed in the 1980s to cater for retired homeowners who wanted to unlock some of the value in their home in order to supplement their income. The early equity release products of the 1980s gained a poor reputation in the early 1990s as the rolled-up interest came to exceed the value of the property in some cases as interest rates rose sharply and house prices fell. The current generation of equity release mortgages protect the borrower by capping the interest rolled-up so that it cannot exceed the value of the house, and most have a rate of interest that is fixed for the entire life of the loan. With the number of people of age 65 and over in the UK projected to rise from 9.6 million in 2004 to 14.8 million by 2029, the equity release market is likely to see further growth. However, it currently accounts for less than 1% of outstanding mortgage balances.

Buy-to-let

In 1996, a number of mortgage lenders teamed up with the Association of Residential Letting Agents (ARLA) to launch an initiative known as buy-to-let, which offered loans to landlords on terms similar to those available to owner-occupiers. Previously, landlords had to rely on commercial finance, which was often limited to a 50% LTV. Since 1996, outstanding buy-to-let lending has grown rapidly, reaching £73 billion (7.6% of total residential mortgage lending) by the end of 2005. Today, around 90 lenders offer buy-to-let products. As with impaired credit, these include large banks, smaller building societies and specialists, such as Paragon Mortgages. Lenders have found that arrears on buy-to-let mortgages tend to be lower than for ordinary loans. This has resulted in a decline of interest rates and a relaxation of lending criteria, although the latter remain tighter than for the mainstream market. There are now even buy-to-let mortgages available for impaired credit borrowers (See chart 11).

Mainstream mortgage product features

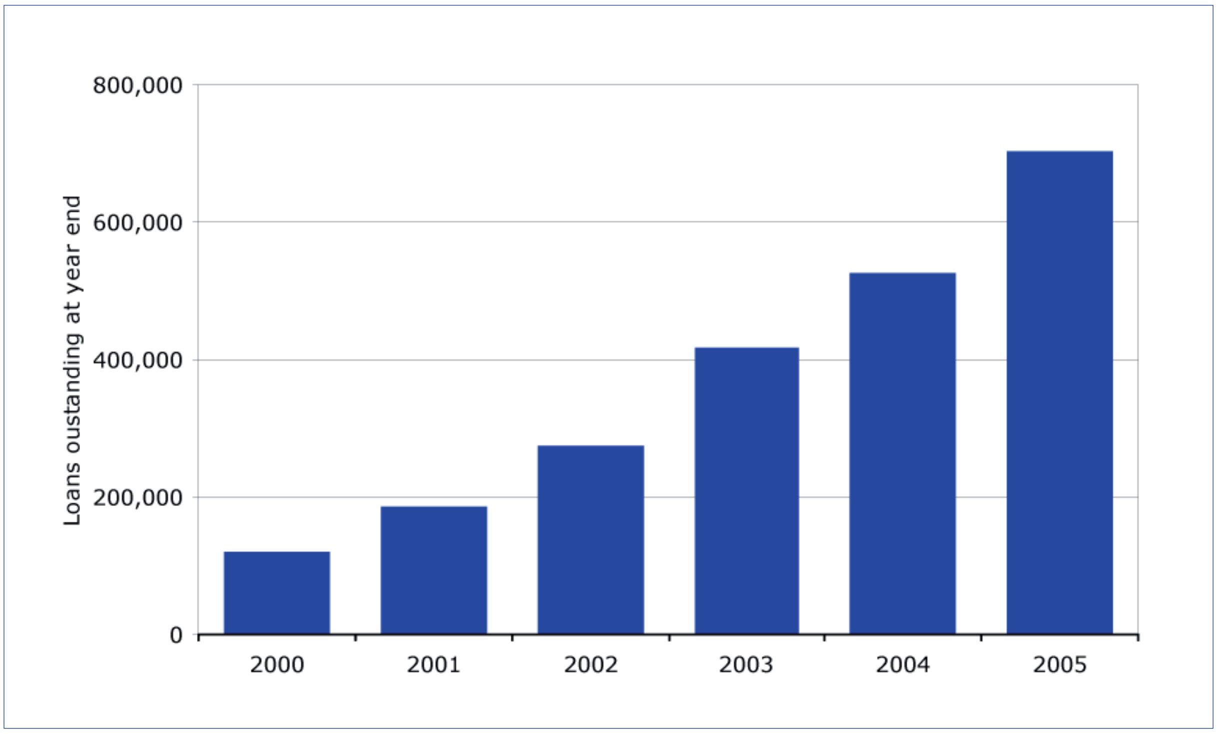
As well as seeing the development of new niche lending markets, the last two decades have witnessed a transformation of the mortgage product itself. Until the 1980s there was little variation in mortgage products. The standard loan was a 25 year capital repayment mortgage at the lender's standard variable rate (SVR) of interest. Although over-payments could be made, other flexible features were unheard of. In contrast, today there is choice as to the payment term, the repayment mechanism, interest rate and interest rate structure (with front-end discounts and loyalty bonuses available on some mortgages). The following text outlines the main innovations in product features seen in the UK.

Interest rate

Mortgage borrowers now have the choice of a wide range of interest rates from SVR and base rate trackers to longer-term fixed rate loans (See table 4). Part fixed, part variable rate loans are available and borrowers can also take a loan with an interest rate cap, which sets an upper limit on the interest rate.

While almost all borrowers paid the SVR until the innovations of the 1980s, there is now a huge array of products that alter the profile of interest charges. Most of these offer reduced interest rates in the early years (so-called discounted rate), but some lenders also offer loyalty schemes that reduce the interest rate paid by borrowers who stay after a particular number of years. The initial or front-end discounts that first appeared in the early 1990s have proven extremely popular with customers, and over the past decade most customers have taken out such loans. There is a huge variety of products on offer, though typically borrowers pay a discounted rate for the first two years of the mortgage,

> Chart 11
Buy-to-let mortgages outstanding in million £



Source: Council of Mortgage Lenders

during which time they cannot repay the mortgage without incurring an early repayment charge. At the end of the discount period they usually revert back to the lender's standard variable rate. As an alternative to offering a reduced interest rate for a period, some lenders offer 'cashbacks'. These are one-off cash payments, usually paid to the borrower straight after the loan is taken out. They represent a restructuring of cashflows that can be beneficial to borrowers like first-time buyers who have additional costs to meet in their new home. Cashback mortgages usually come with early repayment charges, but nonetheless have been popular with borrowers.

> TABLE 4
PROPORTION OF MORTGAGE STOCK BY CATEGORY OF MORTGAGE PRODUCT

	Mar-98	Mar-99	Mar-00	Mar-01	Mar-02	Apr-03	Aug-03
Variable (1)	70%	64%	59%	58%	51%	49%	45%
Discounted	15%	12%	14%	15%	18%	19%	20%
Capped	0%	4%	6%	6%	6%	3%	2%
Fixed	15%	19%	20%	20%	21%	21%	24%
Other (2)	0%	0%	0%	2%	4%	7%	9%

1. Includes premium rate mortgages which pay higher rates than Standard Variable Rates
2. Mainly trackers (for short periods and for the full term of the mortgage)
Source: The UK Mortgage Market: Taking a Longer-Term View, Interim Report, David Miles (2003)

Interest only mortgages

In the 1980s, lenders started introducing interest only loans with savings vehicles (usually endowment policies) to pay off the debt at the end of the term. Reduced tax advantages and lower investment returns subsequently reduced the popularity of endowment mortgages, but interest only loans without a separate repayment vehicle have become more popular, particularly for buy-to-let mortgages, where the property itself could be thought of as the investment vehicle.

Flexible mortgages

The term flexible mortgage entered the vocabulary in the 1990s as lenders started to add features to loans to allow for temporary fluctuations in borrowers' incomes or expenditure. A flexible mortgage gives the borrower some flexibility over his/her payments. The borrower who has made overpayments is allowed to subsequently underpay or even withdraw past overpayments within the existing loan agreement. Some flexible loans allow borrowers to deviate from a regular monthly pattern of interest payments, for example to help those whose income might have a seasonal dip.

The ability to borrow back past over-payments provides customers with a borrowing facility, usually known as a reserve fund. Where the initial loan is below the maximum amount the lender would lend, an additional reserve fund can be added to the loan at the outset. Reserve funds allow borrowers to meet unexpected expenses without having to resort to more expensive forms of credit such as overdrafts. Flexible features like the ability to borrow back past overpayments are becoming increasingly common on ordinary mortgage products.

Current account & offset mortgages

The concept of the flexible mortgage was taken a stage further with the introduction of current account and offset mortgages. The current account mortgage combines a borrower's mortgage and current accounts into a single account with interest calculated on the outstanding balance each day. Thus any sums paid into the account immediately reduce the mortgage debt, saving the borrower interest. The borrower can make payments out of the account as with any current account up to the maximum borrowing limit. There are also tax advantages because the full amount of interest is saved when the outstanding mortgage is reduced, whereas if the money were deposited in a conventional savings account any interest earned would be subject to income tax. Current account mortgages often come with additional features such as a credit card, with any spending added to the mortgage balance and charged at the mortgage rate.

Offset mortgages operate in the same way, but instead of presenting the borrower with a single account, funds are shown in separate accounts. Interest is calculated by offsetting any credit balances (on say a current or savings account) against the mortgage account, producing the same effect as the current account mortgage, but letting the customer feel that his/her finances are in separate compartments. Current account and offset mortgages first appeared in the 1990s, but were slow to gain popularity at first, as they rarely offered the most competitive interest rate, and many customers found them difficult to understand. However, they have gradually gained popularity, and today around 30 lenders offer them.

High LTV loans

A number of lenders offer 100%+ LTV loans, while some offer a combined high LTV mortgage and an additional unsecured loan at the same interest rate. This allows borrowers to meet other expenses or consolidate debts. Perhaps the best known for this is Northern Rock, who offer a combined 95% LTV mortgage and unsecured loan up to a maximum combined 125% LTV. According to the Regulated Mortgage Survey, around 17% of loans made for house purchase in the last quarter of 2005 had a loan-to-value ratio of 95% or more.

Conclusion

This brief survey of the various different types of mortgage products available in the UK outlines the vast transformation which has taken place since the 1970s, when almost all mortgages were the same, and obtained from building societies. Since then, deregulation and competition have seen the number of lenders expand, and mortgage products developed to suit every need. More innovation is likely to take place in the future as lenders compete for business, and try to fulfil the ever-changing demands and needs of customers. Diversity in mortgage products puts UK consumers in a position of strength since whatever their needs, they can be certain of finding the right product for them.

3. NEW MORTGAGE PRODUCTS IN FRANCE

By Claude Taffin, Union Sociale pour l'Habitat

France passed a law allowing equity release on 22 March 2006. This law allows the introduction of the *Hypothèque Rechargeable* and *Prêt Viager Hypothécaire*. The former is a new form of mortgage registration which enables home owners to re-borrow the amount of money they have already paid off. This money can be used for renovation projects, inheritance schemes or for consumption.

Unlike other countries where it already exists (USA, Canada, UK, Netherlands, Denmark), the new French mortgage guarantee only covers the amount of loan mentioned in the notary act. As a consequence, home-owners will not be able to increase their consumption when house prices rise. As the French housing market is probably close to the top of the cycle, the law makers were probably afraid of the opposite risk i.e. that a decrease in house prices might have a negative impact on households consumption.

Prêt Viager Hypothécaire is the equivalent of lifetime mortgages in the UK or reverse mortgage in the USA. PVH is a loan granted to someone who already owns his property. The loan - capital and interest- is only repaid after the owner's death unless he moves or fails to meet the other obligations. The debt generally grows faster than the value of the property as the cumulative interest is added to the borrowed capital. Therefore, if the owner lives long enough, there comes a time when the debt exceeds the value of the property. These loans now have a compulsory guarantee: the amount due may not exceed the value of the property and the loan does not become repayable in case of negative equity.

The risk of negative equity combines three different risks: the risk of borrower's longevity and the interest risk, which are both familiar, and the risk regarding the value of the property, which is much less understood. It is because of this third risk, and the difficulty to evaluate and price it, that PVH is not yet proposed on the French market. Other specific features of the future French PVH are that not only the main but also any second residence will possibly be used as collateral and that, in order to prevent predatory lending, door-to-door selling will be forbidden and loan contracts will have a standard form.

In order to pave the way for these new products, preliminary changes have been introduced in the general law on mortgage registration, in order to makes things simpler and less expensive: cost of registration has been reduced by nearly 50%, lifting is easier, and the maximum term has been increased from 35 to 50 years. Still, this may not be enough if a PVH is granted to a person living as long as Jeanne Calment, who died at the age of 121 years, long after the notary who had bought her house in a lifetime sale !

FOREIGN CURRENCY MORTGAGE LENDING IN POLAND AND CEE MARKETS

By Magdalena Mikolajczyk, Mortgage Credit Foundation

FOREIGN EXCHANGE MORTGAGE MARKETS

Foreign exchange (FX) mortgage lending has been growing significantly during the past few years, mainly in the CEE region. FX mortgages are particularly common in Poland, the Baltic States, Romania, Bulgaria and Croatia, with Estonia as a leader (88.2% of all mortgage lending is in FX currency).

The growth in FX lending has largely been driven by competition, yield differentials, households' increasing price sensitivity and the special ownership structure of the new Member States' banking sector (abundance of cheap foreign currency funding from parent institutions).

FX MORTGAGES IN POLAND

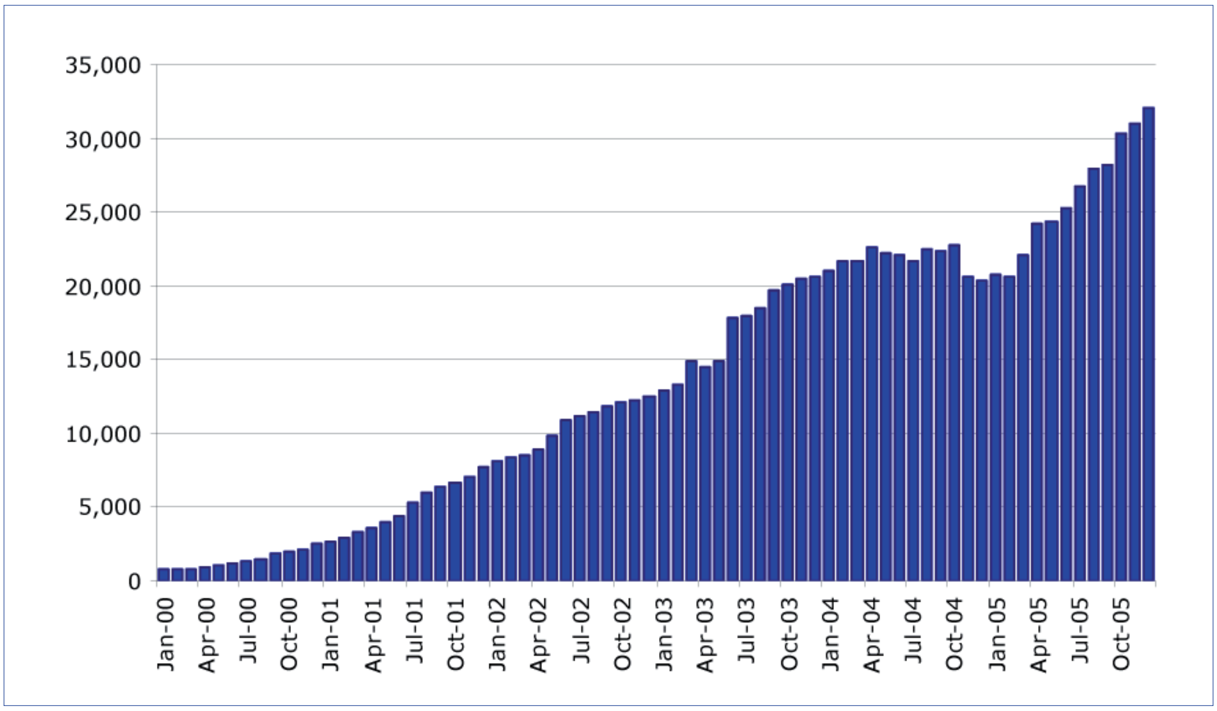
During the period from 1996 to 2003, FX mortgages captured a growing share of mortgage portfolios. In 2003 the depreciation of the PLN against the Euro amounted to 16%. This caused mass revaluation of mortgages denominated in Euro to PLN and significantly influenced the clients' interest in FX mortgages. For the first time since 1996, a decline of FX currency credits was recorded in housing credits. Moreover, growth of PLN credits was stronger than growth in FX mortgages.

Already in 2002, some commercial banks decided to stop granting FX mortgages or to limit their offers in this area. At the same time, mortgage clients began to become CHF-mortgage oriented.

However, in 2005 the decline in FX came to an end. Their share of the total residential debt of the non-financial sector amounted to 54.5% by the end of 2005. In the household segment, this share was even higher, at 64%.

The dynamic development of the mortgage credit market is accompanied by the rapid development

> CHART 12
FX RESIDENTIAL MORTGAGES IN MILLION PLN (1996 – 2005)



Source: Polish Mortgage Association

Note: By using ECB exchange rates, foreign exchange mortgages amount: In Dec 2000 to € 2,509 million, in Dec 2001 to € 7,668 million, in Dec 2002 to € 3,170 million, in Dec 2003 to € 4,421 million, in Dec 2004 € 4,918 million, in 2005 to € 8,338 million of credit instruments. The level of heterogeneity of mortgage products can be compared to that observed in some well-developed markets.

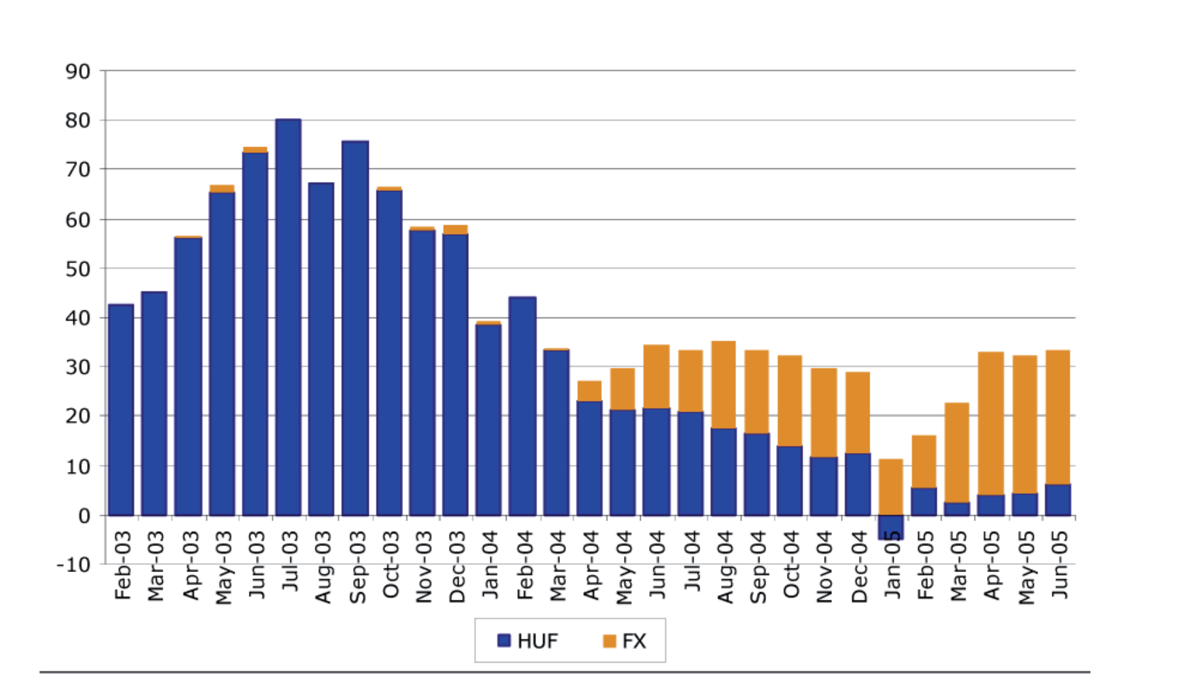
Fierce competition in the mortgage market in 2005 caused a further fall in credit margins. According to Fitch Ratings, margins on mortgage lending in Poland were below average (in comparison to the Euro area) in the second half of 2005: They were between 100bp-160bp for PLN mortgages, although higher at 160bp-200bp for CHF mortgages. At present (II quarter of 2006), margins below 50 bps also occur. However, we can not ignore the fact that mortgage credit is quite often used in cross-selling, and under these conditions profitability should be assessed jointly. Nevertheless, it seems that margins in Poland have reached a historically low level. Therefore, in many cases, mortgage products become a basis for long term cooperation, rather than a source of substantial profits for banks. Banks entering the Polish market often focus on greater product availability, rather than on lowering interest rates. Thus, it is expected that the increase in interest rates in PLN credits' will come to an end, whereas that kind of increase seems very likely in the case of restricted availability of FX credits.

CONSUMERS' APPROACH

The main factor influencing the attractiveness of credits denominated in foreign currencies (esp. in CHF) is the difference between PLN and FX nominal percentage rates. This is reflected in the difference between monthly burdens connected with repayment of PLN and CHF credits having the same parameters (maturity, amount of the loan).

The differences in interest rates offered by the banks are still substantial and depend on many parameters (e.g., maturity, borrower's own contribution, insurance, etc.) – but mainly – on the

> Chart 13
Currency denomination of new monthly net lending in Hungary (2003-2005) in Billion HUF



Source: Magyar Nemzeti Bank (Hungarian Central Bank) currency in which the credit is denominated. Nowadays, the average interest rate for PLN credit amounts to 5.5% and for CHF–credit to 2.5 – 3.5% (starting even from 1.25%). It is worth mentioning, however, that during the last year the gap between both interest rates diminished by almost a half and nowadays amounts to 1.5 - 2 percentage points, whereas just a year ago it was 3 -4 percentage points.

FX LENDING IN CEE

Hungary

The Polish experience with FX mortgage lending is not unique. In Hungary FX mortgage lending has been growing since December 2003, when public subsidies for Forint mortgages started being cut.

Mortgage lending in Hungary began to boom in 2001, with the launch of a government subsidy scheme for purchasing new dwellings. Hungarian Forint mortgages were heavily subsidized in the past, making them nominally competitive with FX mortgages, but as subsidies have been cut back and nominal rates are still above FX rates by a significant margin, the market has started to transform rapidly, with foreign currency mortgages amounting to 88% of new lending in 2005 (See chart 13).

Baltic States

In the Baltic States, FX mortgages are also very common, particularly Euro denominated mortgages. However, the risk of FX mortgage lending in the Baltic States should be evaluated in a different way due to adoption of a currency board, which means that their exchange rate is fixed against the Euro.

The Latvian mortgage market confirms the increasing sensitivity of clients to mortgage interest rates. "Fixing" the Lat to the Euro has caused even a tiny difference between nominal percentage rates for Lat and FX credits, to determine the client's choice towards Euro-denominated mortgages (See Table 5).

> Table 5
Mortgage interest rates in Latvia

End of October, 2005	Interest rates of new mortgage loans			margins	
	LVL	EUR	USD	LVL/EUR	LVL/USD
up to 1 year (floating rate)	4.97%	4.15%	7.48%	0.82%	2.51%
1-5 years	6.83%	5.40%	7.78%	1.43%	0.95%
5-10 years	6.54%	5.54%	6.03%	1.00%	-0.51%
over 10 years	5.93%	5.07%	6.51%	0.86%	0.58%

Source: Latvian Central Bank

Markets with a minor share of FX lending

FX mortgage lending in Slovakia, Czech Republic and Slovenia is limited, due to subsidies to housing loans denominated in local currency and comparatively low interest rates. The subsidies act as disincentives to borrow in foreign currencies.

The phenomenon of FX mortgages in Austria

Members of the European Monetary Union are not unfamiliar with the phenomenon of FX mortgages. The major example is Austria, where FX mortgages have been popular since the beginning of the

1990s, with loans being provided in Swiss francs and in Japanese Yen.

During the last 30 years, the average annual pace of CHF appreciation against the Austrian Schilling and, subsequently, the Euro, has been 1 – 1.2%. The 3-month interest rate on CHF credits fluctuated mainly below interest rates for mortgages denominated in Schilling/Euro. The difference amounted on average to more than 2% in favour of CHF credits. So, even in case of a slight appreciation of CHF, CHF credit remained more profitable for the consumer (See Table 6).

> Table 6
Yearly average changes in interest rates and currency exchange

	Yearly average appreciation of CHF	Yearly average difference in interest (national currency minus CHF)	Net effect
1975 – 1984	1.20%	2.90%	1.70%
1985 - 1994	0.40%	2%	1.60%
1995 - 2003	1.20%	2.20%	1%

Source: H. Abele, G. Schäfer, Chancen und Risiken von Fremdwährungskrediten in Österreich aus gesamtwirtschaftlicher Perspektive, Wirtschaftsuniversität Wien, September 2003.

Financial supervisors' reactions to FX mortgages

Rapid growth of mortgage credit was noticed by the financial supervisors, who take into consideration two aspects of currency risk. First of all, there is exposure to the direct currency risk by the banks granting FX credits and therefore – maintaining open currency positions (currency mismatch of the assets and liabilities). On the other hand, there is even stronger exposure to the currency risk by consumers in taking credits denominated in foreign currencies. In order to limit foreign currency credit and to inform consumers about its risks – the supervisors can take actions directed at both, lenders and borrowers. Previous experiences put pressure mainly on influencing banking practices, rather than changing consumers' decisions.

The Polish regulatory approach

Due to the risks of FX mortgages, the Polish Commission on Banking Supervision issued a new regulation, which came into force on 1st July 2006. Further legislative intervention has been announced in the area of capital requirements. More restrictive capital requirements are likely to be introduced with regard to FX mortgages.

The new regulation obliges banks to inform consumers about the costs and risks implied in both FX mortgages and Polish Zloty (PLN) mortgages. Moreover, a more formal procedure has been introduced in the FX credit provision (i.e., the borrower must sign a statement where he/she confirms that he/she has rejected PLN mortgages and is aware of the risks implied by FX mortgages, which he/she has decided to take.). Banks will also have to follow more restrictive requirements for the underwriting of FX mortgages. The authorities recommend that banks granting FX credit, assess the client's creditworthiness on the assumption that the FX mortgage interest equals or surpasses the interest for PLN credit; and the capital is 20% higher.

The main aim of all these actions is to make the mortgage consumer more aware of FX risks and to give him/her a standardised information package. This package must, however, contain a few examples presenting extreme scenarios of the volatile changes in exchange rates and floating interest rates. However a question arises. Who will actually bear the responsibility to provide the advice? If the bank – even indirectly - induces the client to make a "bad choice" (e.g., to resign a FX credit in circumstances when it would be more advantageous for a client and if, within a few years, it is discovered that this decision wasn't right), who will bear the responsibility – the banking institution or a supervisory regulation that influences clients' decisions?

The new regulations are expected, in particular, to reduce the number of potential debtors with mortgages denominated in Swiss Francs. According to information received from mortgage lenders (leaders in the market), the number of mortgage applications declined in the second half of July 2006. However, it is difficult to discover if this is caused by the regulation or just the confirmed seasonal character of mortgages, which is proven by the lower sales of mortgages during the holiday period.

It still remains an open question as to whether the new regulations limit market forces and will benefit mortgage borrowers.

Initiative of Polish mortgage lenders

The biggest lenders in Poland have launched a similar initiative. It consists of a special FX risk credit guide book published by the Polish Mortgage Credit Foundation. The objective of this publication is to inform borrowers about FX lending risks. (The full version is available on the Foundation's website at www.fukrehip.pl.)

What should be considered in such circumstances?

It is likely that banks will have to review their strategies due to the new restrictions and the possible increase in mortgage funding costs.

Given that 60% of mortgage lending in Poland is in foreign currency, a major concern is the view of rating agencies. Will the riskier FX mortgages have an impact on the Credit rating of Polish banks? In fact, the rating agencies already take into account the proportion of FX mortgages in the rating of credit portfolios and of securities covered by such assets. Moreover, there is a need to take into account possible changes in competitive conditions in the Polish mortgage market. Cross-border flows could play an increasingly important role, as they are not subject to the stringent requirements imposed by local supervisory authorities.

Other Central Bank approaches

The Hungarian Central Bank and the Austrian Central Bank stress that lenders must act in order to increase debtors' risk awareness and understanding of FX mortgages. They underline the importance of maximum transparency for both the lender and the borrower. In fact, the FX risk born by the borrower could rapidly become a credit risk for the lender.

For example, the recommendations of the Austrian Financial Market Authority (Finanzmarktaufsicht – FMA), regarding FX lending, focus on two areas:

> **Bank** – it is recommended to maintain rational praxis in the area of FX credits (i.e., responsible lending)

> **Customer** – it is recommended to provide the costumer with complete information, together with a thorough analysis of his/her creditworthiness (taking into consideration a potential growth of credit obligations as the result of exchange rate fluctuations).

Such an approach is expressed in «Minimum Standards for Granting and Managing Foreign Currency Loans", published in 2003 by the FMA. These standards are not obligatory for credit institutions. However, the FMA expects credit institutions to adhere to these standards.

Both, the Hungarian Financial Supervisory Authority and the Austrian Financial Market Authority have posted an information pack about FX mortgage risks and their potential impact for debtors on their websites.

Discussion to be continued?

The issue of FX mortgages and related risks was raised by the European Central Bank and the rating agencies. It is likely that FX mortgage lending will remain a major issue in the future. The focus will be on the adoption of the Euro and the conversion exchange rate of the new Member States.

Euro adoption

During the preparation phase for the introduction of the Euro, a rapid growth of lending could be observed in some EU Member States. It happened mainly in Portugal and Ireland. The phenomenon was mainly due to the convergence of national interest rates with the Euro zone interest rate. The increase in lending involved firstly and primarily property financing.

It is expected that the new Member States (especially Poland and Hungary) will experience a similar phenomenon in the credit market in the upcoming years. However, its scale will be much smaller than that observed in Portugal and Ireland. In fact, the new EU Member States have already shown a high level of convergence with the Euro zone and that process will continue for the next few years under the supervision of European Commission and the European Central Bank. The European Central Bank stresses that the new Member States should carefully assess the situation that occurred in the above mentioned countries. It should be noted, however, that the time frame is quite short and the starting point is different (e.g., lower interest rates prevail in the new Member States).

An often discussed question in the context of Poland's future Euro zone membership is the possibility of a PLN devaluation at the moment of the exchange rate fixation. It must be stressed, however, that devaluation did not occur in countries that had already accepted the Euro. National currencies did also not encounter any problems in fluctuating within the permitted range during the 2-year period of transition under ERM.

Conclusions

In sum, foreign currency credits are popular in CEE and other countries, where the interest rates are still relatively high. However, it should be noticed that, although FX credits are inseparably connected with higher risk, instability of banking systems would occur only in the case of violent changes in the currency market (i.e., a substantial appreciation of national currency).

Undoubtedly, foreign exchange denominated credit should not be used precipitately without a precise analysis of the potential changes in obligations connected to credit repayment. In that context, an essential role of credit institutions should be restated - they should aim to make the consumer aware of costs and benefits connected with FX loans. It should be emphasized, however, that this information must be provided in a clear and intelligible way. Quite symptomatic is the position of supervisory authorities in those countries, where FX lending has reached substantial levels. In principle, those supervisors opt for providing the consumer with the mentioned information. They also direct the banks' attention to the necessity of tightening FX mortgages underwriting procedures.

Taking into consideration the latest regulations in Poland pertaining to FX mortgage lending, including detailed provisions of underwriting procedures, a question may arise as to whether the approach taken by the Polish Central Bank will set a 'benchmark' for the supervision and regulation of FX mortgage lending in the region.

EU25 COUNTRY REPORTS

EU25 COUNTRY REPORTS

H Y P O S T A T 2 0 0 5

BELGIUM

By Marc Dechèvre, Union Professionnelle du Crédit

MACROECONOMIC OVERVIEW

GDP growth dropped from 2.6% in 2004 to only 1.5% in 2005. One major driver was the weakening in foreign demand (especially of the Euro area partners), which resented from the sluggish Euro area economy. Exports form a major proportion of final demand in Belgium compared to other Euro area countries. Inflation rose from 1.9% to 2.5% in 2005 mainly due to the impact of rising oil prices, which was exacerbated to some extent by the depreciation of the Euro against the dollar.

The rise in the employment rate was not enough to offset the increase of supply of workers on the labour market; the unemployment rate remained stable at 8.4%.

HOUSING AND MORTGAGE MARKETS

The Belgian mortgage market continues to boom. In 2005, mortgage lending outstanding increased by 12.3%. The volume of new mortgage loans was EUR 9,864 millions and of gross lending €25,198 millions. Both gross and net lending reached record highs in 2005. The rise in net lending was not driven by an increase in transactions, but by the increase in the average size of new mortgage loans. According to the Union Professionnelle du Crédit (UPC), the average size of a mortgage loan increased from €58,776 in 1996 to €92,350 in 2005. This development is confirmed by the National Bank of Belgium, which stresses that the average size of a new mortgage loan in 2005 for the purchase of an existing house reached €90,122. This is twice the level recorded 10 years ago. The rise in gross lending was mainly due to declining interest rates, which led many households to lower their debt service burden by refinancing their loans at lower interest rates. In fact the principal driving forces for the continuing mortgage market boom are the decrease in interest rates, which reached a record low during the 3rd quarter of 2005, as well as the rise in house prices.

House price inflation increased from 10.3% in 2004 to 16% in 2005. Depending on the region, growth rates differed. Obviously, the property market in the capital recorded the highest increase. During 2005, house prices rose by 55% in Brussels, by 14.7 % in Flanders, and by 13.4% in Wallonia. Despite the large rise in house prices, property in Belgium remains relatively affordable compared to that of some of its European neighbours. The rise in Belgian house prices could be the result of Belgium catching up with other EU countries. In the past (during the 90s) prices did not shoot up as in other European countries[25]. Despite being the headquarter of the European Union and NATO, Brussels remained a place, where buying a property was still relatively good value. House price growth has started to moderate during the second half of 2005 and this trend is expected to last in 2006[26].

During 2005, initial fixed rates again increased in popularity at the expense of variable rates. Belgium, traditionally regarded as a fixed-rate country, experienced an increase in variable rate mortgages to 68% of new lending in August 2004. Due to rising interest rate expectations, however, the trend reversed in 2005 and at present (June, 2006) mortgages with an initial fixed period over 10 years make up the largest share of new lending.

The ratio of mortgage debt to GDP amounts to 33%. It recorded a strong increase during the past years due to the buoyant mortgage market. However, according to the National Bank of Belgium, the default rate on mortgage loans amounted only to 0.24% in 2005, which is well below the corresponding rates recorded for other types of household loans.

25 International Herald Tribune- Properties: Bargains in Brussels are getting harder to find, 29 June 2006
26 See Quarterly Review, 1st Quarter 2006

	EU average	Belgium
GDP growth (EU 25)	1.6%	1.5%
Unemployment (EU 25)	8.7%	8.4%
Inflation (EU 25)	2.1%	1.9%
% owner occupied	65.0%	68.0%
Residential Mortgage loans as % GDP	47.5%	33.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	9.5
Total value of residential loans, € million, (EU 25)	5,138,835	98,060
Annual % house price growth (Euro zone)	7.7%	16.3%
Typical mortgage rate (Euro zone)	3.91%	5.0%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

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

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CZECH REPUBLIC

By Jindřich Thon, Hypoteční banka

MACROECONOMIC OVERVIEW

2005 was a very successful year for the Czech economy. GDP rose by 6% and the increase was significantly higher than in the previous year (4.7% in 2004). The growth was mainly due to expanding exports, which rose by 10.6%, while imports rose only by 4.9%. The exports were driven mainly by new capacity in the automotive industry. These good results also influenced the Czech labour market. Unemployment fell slightly to 7.9% from 8.3% in 2004.

Despite the fast growth of the Czech economy, inflation was kept under control. Consumer price inflation reached only 1.6% and declined from 2.6% in 2004. Interest rates reached their lowest levels historically (1Y PRIBOR 1.8%) in the first half of 2005, but rose in the 4Q 2005 and 1Y PRIBOR increased to 2.5%.

HOUSING AND MORTGAGE MARKETS

In 2005, the growth in the total number of housing starts declined. The number of housing starts was 40,381 and increased by 3.4%, whereas 2004 recorded a 7.0% increase. The number of housing completions was 32,863 and rose by 1.8%, whereas the 2004 increase was 19.0%. The number of building permits declined by 6.8% to reach 47,974.

Conversely to the housing market, the mortgage market in 2005 continued to grow at a sustained pace. The total volume of new mortgage loans was € 3.5 billion and increased by 45.0%, while in 2004 it was € 2.4 billion, and increased by 43.1%. The outstanding amount of mortgage loans rose by 42.8% to € 8.0 billion. However, the mortgage debt to GDP ratio is only 7.6% of GDP, which is far below EU average of 47.5%. Consequently, there is still a large potential for further growth.

The increased interest in mortgage loans was primarily the result of favourable interest rates charged by the banks. While the average interest rate in 2004 reached 4.74%, it dropped to 3.98% in December 2005. Moreover, the development of mortgage lending is due to sufficient supply of good quality real estate, primarily in the area of development projects. Economic growth is also a major reason together with the increase in real wages and the rising number of people who are willing to invest in their own homes without fearing long-term indebtedness. The interest in mortgage lending is also the result of planned rent deregulation, which has caused the market rent to often seem unreasonably high compared to mortgage loan instalments. Another factor is demographic development, as the large group of those born during the 1970s are entering the housing market.

FUNDING

The role of mortgage bonds in the financing of mortgage loans increased in 2005. The outstanding volume of mortgage bonds rose by 89.9% and reached € 5 billion. This corresponds to 64 % of mortgage loans outstanding and is equivalent to 5.1% of GDP.

	EU average	Czech Republic
GDP growth (EU 25)	1.6%	6.0%
Unemployment (EU 25)	8.7%	7.9%
Inflation (EU 25)	2.1%	1.6%
% owner occupied	65.0%	46.8%
Residential Mortgage loans as % GDP	47.5%	6.1%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.6
Total value of residential loans, € million, (EU 25)	5,138,835	6,016
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	83.1%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU Owner occupation rate average derived from EMF calculations based on latest available data. Czech Republic=2001

DENMARK

By Lars Blume-Jensen & Gert Holst Andersen, Association of Danish Mortgage Banks

MACROECONOMIC OVERVIEW

The Danish GDP increased by 3.1 per cent in 2005, the highest rate of economic growth since 2000. This positive development was caused not only by the favourable market trends, but also by a simpler tax policy which has helped to promote the Danish economy and especially private consumption. Investments increased by 9 per cent in 2005, while private consumption increased by almost 4 per cent. Foreign trade showed strong growth with increases in exports and imports of 8 percent and 11 percent, respectively.

Based on the favourable economic development, unemployment continued to decline throughout 2005. At the end of the year, unemployment accounted for only 4.8 per cent of the work force. In spite of the increasing pressure on the labour market, consumer price inflation stayed below 2 per cent. The generally good international market trends particularly influenced the short term Danish interest rates. While the short term interest rates increased by about ½ point throughout 2005, the long term interest rates were at the end of the year almost on the same level as at the beginning of the year.

HOUSING AND MORTGAGE MARKETS

In 2005 the total number of dwellings in Denmark was 2.63 million. Private owners occupied 52 per cent of them. In 2005, the number of housing starts was 26,200 while 27,200 dwellings were completed. Housing starts were about 60 per cent higher in the 2003-2005 period, than the average recorded for the preceding 10 years.

Low interest rates, less onerous taxation of owner occupied dwellings and new mortgage credit products have contributed to a high demand for owner occupied dwellings. In 2005, 84,400 single family houses and owner occupied flats were sold. This was about 5 per cent more than in 2004.

The heavy demand has had the result that prices for owner occupied dwellings have increased rapidly during the past years. This has taken place especially in, and around, the big city areas, where the supply of existing dwellings and the number of free sites are limited. For the country as such, the prices for owner occupied dwellings have gone up by 19 per cent from 2004 to 2005. Dwelling prices have thus gone up by almost 150 per cent since 1995. While the prices of single family houses in the period have increased by 120 per cent, the price of an owner occupied flat rose by 230 per cent in the 1995-2005 period. The price of an average single family house was 1.7 m DKK (€227,000) at the end of 2005.

At the end of 2005, the mortgage banks' outstanding bond debt for owner occupied dwellings was 1,005 billion DKK (€134 bn). This corresponds to 65 per cent of Denmark's GDP, while the total outstanding bond debt (1,687 billion DKK (€225 billion)) for all property categories corresponds to 109 per cent of Denmark's GDP. The total outstanding bond debt has risen by 76 per cent since 1997 at an annual average of 7.3 per cent. The outstanding bond debt is equivalent to €41,500 per capita and €90,000 per household.

In 2005, gross lending amounted to 748 billion DKK (€100 billion). This was almost 50 per cent higher than in 2003, which had been the record year until then. The high level of activity could be ascribed to the fact that many borrowers chose to replace their interest reset loans with fixed interest loans and the new capped variable interest loans, due to increasing short term interest rates. Net lending, which corresponds to gross lending after redemptions and instalments, amounted to 162 billion DKK (€22 billion) in 2005. This, also, was a record high. In comparison, net lending in 2003 amounted to 93 billion DKK (€12 billion).

Loans for owner-occupied dwellings in Denmark are typically granted as a combination of mortgage credit loans (about 90 per cent of the total lending secured by mortgages on real property) and bank loans (the rest). The banks' lending consists of simple bank loans with a variable interest rate and a maturity between 10 and 30 years. The mortgage banks can grant loans up to 80 per cent of the property value. The actual LTV in Denmark is about 50 per cent. The mortgage banks have lately developed a number of new products, such as capped variable interest rate loans (introduced during the autumn of 2004) and instalment free loans (introduced during 2003). At the end of 2005, capped variable interest rate loans amounted to 160 billion DKK (€21 billion) of the total outstanding lending for owner-occupied dwellings and weekend cottages. This corresponds to 16 per cent of the total outstanding lending for owner occupied dwellings and weekend cottages. At the end of 2005, instalment free lending amounted to about 34 per cent of the total outstanding lending for owner occupied dwellings and weekend cottages.

The most frequently used loan type today is the interest reset loan, which is based on non-callable bonds. The interest reset loan amounted to 49 per cent of the total outstanding lending for owner-occupied dwellings and weekend cottages at the end of 2005. The typical interest binding period of an interest reset loan is ½-3 years, after which the loan is refinanced or the interest is changed to the interest in force at the given time.

The typical life of a mortgage loan is 30 years.

Arrears for owner-occupied dwellings were 0.08 per cent at the end of 2005. In 2005 total mortgage payments were about 55 billion DKK (€7 billion), while mortgage payments of about 56 million DKK (€ 7.5 m) were not paid on time. Compared to earlier years (more than 2 per cent at the beginning of the 1990s), this is extremely low. The number of compulsory sales was about 1,900 in 2005 compared to about 15,000 in 1993.

FUNDING

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

	EU average	Denmark
GDP growth (EU 25)	1.6%	3.1%
Unemployment (EU 25)	8.7%	4.8%
Inflation (EU 25)	2.1%	1.7%
% owner occupied	65.0%	52.0%
Residential Mortgage loans as % GDP	47.5%	94.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	36.2
Total value of residential loans, € million, (EU 25)	5,138,835	195,762
Annual % house price growth (Euro zone)	7.7%	17.0%
Typical mortgage rate (Euro zone)	3.91	4.4%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	100%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Denmark=2004

GERMANY

By Thomas Hofer, Verband deutscher Pfandbriefbanken

MACROECONOMIC OVERVIEW

The economic upturn in 2004 slowed a little. According to Eurostat, GDP rose in the year under review by 1.0% (2004: 1.6%). Leading German institutes for economic research expect the economy to grow by 1.8% in 2006 and by 1.2% in 2007. Also in 2005, exports were the main driver for growth.

The labour market situation remained unsatisfactory: The number of unemployed persons (according to Eurostat) remained unchanged (9.5%). Inflation remained below EU-average: In 2005, the consumer price index rose by 1.9%, following a 1.8% increase in the previous year.

HOUSING AND MORTGAGE MARKETS

Generally, it can be said that there was little activity on the housing market in 2005. Housing completions decreased by 14%. This sharp decline stems from the decision taken at the beginning of 2004 to reduce grants for first-time buyers. This resulted in increased demand in 2003, with a rising number of building permits. Whereas completions increased to 278,000 units in 2004, building permits declined by 9.7% during the same year. Therefore, completions fell during the year under review.

In 2005, demand was at a level, which was again lower than would have been expected under normal conditions. Building permits declined by 10.3% to 240,000 units, the lowest level since reunification. As the number of building permits issued dropped, so did the number of transactions which declined by 2.2% from 434,000 to 424,000. Due to concerns about income prospects and future population developments in parts of the country, investors are reluctant to invest in housing. Since construction activity of the past few years was at a low level, it can be expected that the housing market will begin to recover in 2006. However, demand will be limited, because of the unsatisfactory unemployment situation and stagnating private households' incomes.

House prices in Germany have developed differently from house prices in most other European countries. According to calculations by the Deutsche Bundesbank, house prices declined slightly in 2005 (resales: -1.7%, new dwellings: +/-0%). As a result of disadvantageous projections of the long-term population growth, expectations of future house price developments are often pessimistic. That being said, exaggerated pessimism is inappropriate. The construction of new houses was at a very low level. In recent years the housing stock has grown at a slower rate than the number of households. Furthermore, a number of apartments were eliminated by demolition, merger and redesign. Taking future demand into account, the current level of construction activity is somewhat too low, rather than too high. As such, in the coming year, further declines in house prices are less likely. These remarks apply to the German housing market as a whole. It should be noted that, at the regional level, the development of house prices can sometimes vary significantly.

Since 2000, the housing market has seen growing interest by investors. Foreign investors, in particular, seem to see great potential in the German housing market and buy large numbers of apartments. The apartments are sold by corporations and public authorities. The largest and best-known transaction occurred in 2005, when Viterra was sold to Deutsche Annington (140.000 units).

At the end of 2005, mortgage rates in Germany were lower than at the end of the previous year. However, this did not enhance borrowing. Given the lower demand for new houses and house purchases in 2005, gross residential lending decreased by 3.2%. The volume of outstanding residential loans remained almost unchanged. In 2005, outstanding loans amounted to € 1,163 billion (+0.4%).

FUNDING

Germany has the largest covered bond market in Europe, accounting for 57% of the total market. The sub sector of this market for mortgage bonds is also strong in Germany and accounts for 28% of the total EU market.

The decline of first-time sales of Pfandbriefe in 2004 was followed by a stabilization in the year under review. In 2005, Pfandbriefe totalling €173 billion were brought to market (2004: €174 billion). Whereas Public Pfandbriefe with an aggregate volume of €137 (132) billion were sold (+4%), Mortgage Pfandbrief sales declined by 14% or €6 billion to €36 billion.

As repayments exceeded new sales, the outstanding volume of Pfandbriefe decreased slightly to €976 billion in 2005. Compared to the previous year, the outstanding volume of mortgage Pfandbriefe fell from €250 billion to €241 billion. Public Pfandbriefe also declined from €760 billion to €735 billion.

	EU average	Germany
GDP growth (EU 25)	1.6%	1.0%
Unemployment (EU 25)	8.7%	9.5%
Inflation (EU 25)	2.1%	1.9%
% owner occupied	65.0%	43.2%
Residential Mortgage loans as % GDP	47.5%	51.7%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	14.1
Total value of residential loans, € million, (EU 25)	5,138,835	1,162,588
Annual % house price growth (Euro zone)	7.7%	-1.7%
Typical mortgage rate (Euro zone)	3.91	4.2%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	20.4%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:

• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)

• EU owner occupation rate average derived from EMF calculations based on latest available data. Germany=2002

ESTONIA

By Peeter Peda, AmCredit Latvija AS

MACROECONOMIC OVERVIEW

The Bank of Estonia reported that the Estonian GDP grew by 9.8% during 2005. According to the Central Bank's forecast, the economy of Estonia will grow in 2006 and 2007 by 8.2% and 7.7%, respectively. Economic growth is based on domestic demand and exports, although their growth rates are expected to decelerate.

The annual growth of the consumer price index was 4.1% in 2005. The increase in inflation in 2005 was mainly due to the increase in the price of motor fuel, as well as to an increase in expenditures on housing.

The unemployment rate declined in 2005 to 7.9%, which is the lowest since 1995. Compared to 2004, the change was significant. According to the data of the Estonian Labour Force Survey, 607,000 of the population category of age 15–74 were employed in 2005.

HOUSING AND MORTGAGE MARKETS

According to the Construction Works Register data, the number of dwelling completions in 2005 was 3,927 (i.e. 822 more dwellings than in 2004). The most popular type of building was a 3–5 storied block of flats, accounting for about a half of dwelling completions. Every second completed dwelling had two or three rooms.

The more than 20% increase in property prices, which has been witnessed in recent years, has been double the growth in salaries. The residential sector in Tallinn experienced a significant price increase in the second half of 2005, with prices of apartments growing by 50-60% annually. The price difference between apartments and private houses has diminished. Therefore an increasing number of people have decided to buy a cheaper private house, instead of an expensive apartment. The average prices of newly built houses and apartments in Tallinn vicinity were both about 1300 EUR per square meter. Demand for new modern residential space in Tallinn and its surrounding areas remains strong and all apartments constructed have been sold. In 2006 about 3000-3500 new apartments are expected to come onto the market in Tallinn and its vicinity.

The market for private houses has not gone through such a rapid growth as that for apartments. The majority of transactions concluded in Tallinn's housing market involved the purchase of a plot of land in a suburban development area. The prices of residential land increased approximately 20-25% during 2005.

The strong growth in housing and commercial real estate loans continued in 2005 at an even higher rate. The stock of housing loans and leasing granted to households in 2005 increased by more than 60%, reaching 42 billion kroons at the end of the year. Both moderate key interest rates and declining loan margins arising from competition have facilitated the loan growth.

The interest rates on mortgage loans had fallen to a historical low by mid 2005. Earnings and purchasing power have risen and loan opportunities have improved every year. Consequently, demand for residential property remains continually high.

Interest in Estonia as a potential market can be seen in the nearly 100 applications for provision of cross-border banking services submitted throughout 2005 to the Financial Supervision Authority

FUNDING

Growth in savings was rapid in 2005. Savings increased by 46%, (i.e., by nearly 95 billion kroons). Nevertheless, banks attracted additional funds in the amount of almost 16 million kroons from non-residential institutional investors in order to satisfy the high loan demand. In previous years, banks obtained foreign funding through parent banks or directly from international markets by issuing bonds. However, the role of market-based resources in institutional foreign borrowing decreased in

	EU average	Estonia
GDP growth (EU 25)	1.6%	9.8%
Unemployment (EU 25)	8.7%	7.9%
Inflation (EU 25)	2.1%	4.1%
% owner occupied	65.0%	85.2%
Residential Mortgage loans as % GDP	47.5%	24.8%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	1.9
Total value of residential loans, € million, (EU 25)	5,138,835	2,618
Annual % house price growth (Euro zone)	7.7%	42.1%
Typical mortgage rate (Euro zone)	3.91%	3.7%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
EU owner occupation rate average derived from EMF calculations based on latest available data. Estonia=2002

GREECE

By Dimitrios Frangopoulos, National Bank of Greece

MACROECONOMIC OVERVIEW

In 2005 economic growth remained healthy. GDP grew by 3.7%, which was lower than in 2004 (4.7%), but still higher than the EU average. Prospects for 2006 also seem positive with official forecasts predicting GDP growth of around 3.8%. In spite of the satisfactory growth rate, unemployment showed only a slight decrease, ending 2005 at 9.8% (vs. 10.5% in 2004). This was significantly higher than the EU (15) average.

Inflation rose slightly in 2005 to 3.5%, up from 3.0% in 2004, and 3.4% in 2003. This was far above the EU 15 average.

HOUSING AND MORTGAGE MARKETS

Data is not available for housing starts and completions in Greece, but building permits data showed a significant increase of about 17,5%. This was mainly due to the huge increase in building permits issued in Q4, 2005 (nearly 60% higher than the same quarter of 2004) in anticipation of the imposition of VAT on new dwellings and a hike in "objective values" - the values on which transaction taxes on property are calculated.

House price inflation decreased in 2003 and 2004 (averaging less than 6% per year), but picked up again in 2005. Unfortunately, official data is available only until Q2 2005. Nevertheless, house prices increased by over 10% on a 12-month basis. Furthermore, given the huge growth in demand throughout the last few months of 2005, the final figure for 2005 is expected to be much higher. House prices, having absorbed the effects of the introduction of VAT (which, it should be noted, excludes first time home buyers), are expected to level off in 2006 as demand is expected to be weaker and the fairly protracted period of low interest rates seems to come to an end. On the whole, the overall financial position of households remains strong due to a relatively healthy macroeconomic environment and signs of recovery of the Greek stock market.

Residential mortgage lending remains strong in Greece. Outstanding residential loans increased by 33.4%, from 27% and 26% in 2004 and 2003, respectively. The residential debt to GDP ratio increased from 17.4% in 2003 to 25.08% in 2005. This is nearly five times higher than it was in 1998, highlighting how rapidly the Greek market for housing finance has developed. Nevertheless, it still remains well bellow the EU average. Net lending more than doubled between 2003 and 2005. At the end of 2005, it stood at more than €11.4 billion versus €7.3 billion, in 2004 and 5.3billion in 2003. The rate of credit expansion is, however, expected to slow down in 2006, with most estimates converging on a growth rate that is closer to the rates experienced in the previous two years (2003/2004), and maybe even lower.

According to the Bank of Greece's revised figures for 2005, overall household indebtedness as a percentage of GDP rose sharply from 31.2% in 2004 to 38% in 2005. Although such figures are low in comparison to the EU or US average, the increase in indebtedness levels has raised some concerns by the Bank of Greece. However, a recent study carried out by the Bank of Greece itself showed that, on the whole, over-indebtedness is still not a major issue. Banks will normally ensure that the ratio of disposable income to total annual instalments does not deviate from a limit of 2.5. Currently the main cause for concern would be the high percentage of variable rate loans (over 90% in 2005) and the impact that a significant increase of ECB's base rate would have on borrowers. However, during the first few months of 2006, there has already been a shift towards fixed rate mortgages.

FUNDING

Banks still rely heavily on retail deposits and equity for the financing of mortgage lending activity. Only a small portion of mortgage debt (less than 5%), amounting to €2.2 billion in 2005, is financed through mortgage backed securities. There are no mortgage bond issues in Greece yet.

	EU average	Greece
GDP growth (EU 25)	1.6%	3.7%
Unemployment (EU 25)	8.7%	9.8%
Inflation (EU 25)	2.1%	3.5%
% owner occupied	65.0%	74.3%
Residential Mortgage loans as % GDP	47.5%	25.1%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	4.1
Total value of residential loans, € million, (EU 25)	5,138,835	45,420
Annual % house price growth (Euro zone)	7.7%	6.5%
Typical mortgage rate (Euro zone)	3.91%	4.0%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	N/A

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
EU owner occupation rate average derived from EMF calculations based on latest available data. Greece=2004

SPAIN

By Lorena Mullor, Spanish Mortgage Association

MACROECONOMIC OVERVIEW

In 2005, the Spanish economy performed even better than it did in 2004. The GDP grew by 3.4% in comparison to 3.1% in 2004. Economic growth was supported by the acceleration of domestic demand, with an especially strong demand for private consumption (4.4%) and investments in fixed capital (9.5% versus 3.7% in 2004). Households' consumption has experienced a very high growth rate during past years, due to the positive progress in employment and financing conditions. However, according to the European Commission opinion polls, a weakening appears to have begun during the first months of 2006.

At the end of 2005, the unemployment rate in Spain was 9.2% compared to 10.6% in the previous year. Unemployment reached an all-time low during the third quarter of 2005. The good performance of the construction sector during the past few years has been a driving force in the creation of new direct and indirect jobs.

HOUSING AND MORTGAGE MARKETS

Construction activity was very strong during 2005. The number of new dwellings in 2005 exceeded 700.000 and housing completions went beyond 500.000 dwellings.

Housing prices recorded a 12.8% year-to-year increase, which is far below the increase of the previous year (in which house prices rose by 17.2%). During the first quarter of 2006, house price inflation continued to decline. House price growth was 11.8%.

During 2005 the Spanish mortgage market exceeded the most optimistic expectations, since most experts had forecasted an increase in outstanding mortgage credit of about 15 % by the end of the year. However, at the end of 2005, the volume of outstanding mortgage credit (residential and commercial) amounted to more than €700.000 (€739.296) million, the result of a rise of 26.9% from the previous year.

During the second half of the year, the Spanish mortgage market expanded strongly, achieving the highest growth rate of recent years, with year-to-year differences that exceeded 26% in November and December. In March, 2006, the year to year change reached 27.3%, a record high.

One of the major reasons for this performance was the level of interest rates of mortgage credit. Despite having undergone a slight upturn in the last quarter of 2005, mortgage interest rates remained very low and have continued compensating for the rise in house prices. The good performance of the economy, strong employment, and the increase in demand for housing of immigrants, has also boosted mortgage demand.

During 2005, the Bank of Spain introduced new financial reporting requirements for credit institutions arising from the European Union's adoption of International Financial Reporting Standards (IFRS). Due to this new regulation, the default rate of mortgage credit has been affected. As a result, the new data since June 2005 shows a slight increase, which is not the result of households' inability to repay loans, but instead is an accounting effect. The default rate of residential loans at the end of 2005 was 0.373%.

FUNDING

The funding activities by means of mortgage bonds and MBS by Spanish financial institutions achieved good results in 2005. At the end of the year, the value of outstanding mortgage bonds (including structured mortgage bonds) was €157.663 million and the value of outstanding MBS had reached €70.941 million. The total amount of mortgage assets in the market accounted for 30% of total mortgage credit at the end of the year.

The year 2005, saw a strong increase in new issues of mortgage assets, recording a volume over

€89.000 million. This accounted for approximately 40% of the total outstanding mortgage assets. At the end of the year, 50% of gross mortgage lending was financed by the issuance of MBS and mortgage bonds.

	EU average	Spain
GDP growth (EU 25)	1.6%	3.4%
Unemployment (EU 25)	8.7%	9.2%
Inflation (EU 25)	2.1%	3.4%
% owner occupied	65.0%	83.0%
Residential Mortgage loans as % GDP	47.5%	52.6%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	8.3
Total value of residential loans, € million, (EU 25)	5,138,835	475,571
Annual % house price growth (Euro zone)	7.7%	12.8%
Typical mortgage rate (Euro zone)	3.91%	3.5%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	33.2%

Source: EMF, EUROSTAT, ECB, National Central Banks

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

FRANCE

By Claude Taffin, Union Sociale pour l'Habitat

MACROECONOMIC OVERVIEW

Following the strong increase in activity observed in 2004 (+2.3%), the net increase in 2005 was only 1.2%. Whilst internal dynamism was satisfactory with the level of housing consumption relatively substantial at +2.1% and a revival in the level of business investment, the exterior balance worsened in 2005. The rate of unemployment declined slightly to 9.5% (in place of 9.6% in 2004). Despite the rise in the price of raw materials, the level of inflation remained under control, at 1.9%.

HOUSING AND MORTGAGE MARKETS

In 2005, with over 410,000 new home starts, the construction of new dwellings reached its highest level since 1980, having increased by 13% since 2004 (+23% communal dwellings and +6% individual dwellings) – an increase of over 100,000 new home starts than two years previously. There are a number of different elements that account for this strong increase.

Firstly, demand for housing has benefited from an increase in the amount of credit on offer: credit for housing purposes grew by 19% in 2005 to reach a new high of €134 billion (30% for new properties, 63% for old properties and 7% for home improvements/maintenance). The production of credit for housing purposes is also stimulated by the continuance of historically low interest rates (3.5% fixed rate for a loan over 15 years during the second half of 2005), the development of secured variable rate products, the extension of the duration of loans (an average of more than 16 years in 2004 compared to 13.5 years in 1997 according to l'Observatoire de la production de crédits immobiliers). Furthermore, products aimed at supporting investment for rental purposes have proven to be effective and account for more than 55% of sales by developers during 2005. In 2005, sales of new properties reached an exceptional level with 121,500 new properties sold (+8% compared to 2004). With the rate at which dwellings are put up for sale being twice the rate of actual sales, the supply of housing is increasing, notably for apartments. In 2005, the price of new properties grew by an annual average of 9% and the surface area (m²) of new apartments grew by 11%.

In 2005, the number of transactions involving old properties, which is estimated to have been 625,000 (source: FNAIM), grew by 3% compared to 2004, whilst the prices of old properties continued to rise by 14% - the second largest increase since 1998 (16% in 2004). Since the start of their resurgence in 1998, prices have more than doubled (+106%).

Despite the extension of the maturity of loans, the financial demands now placed on households has progressively modified the structure of clientele to the extent that a number of first-time buyers are now excluded from the market whilst the hand of those buyers who already own a property that can be re-sold has been strengthened. The expansion of the market has also been accompanied by a notable decline in the activity of households with limited resources and an increase in the activity of households with greater resources.

The slowdown in the increase of house prices remains very moderate as the market is, in effect, supported by the pursuit of low levels of long term interest rates. Therefore, the rise in interest rates that is anticipated for 2006 must be only a modest rise as the market should remain dynamic despite the context of a slowdown in the rate of price increases.

FUNDING

The total value of covered bonds outstanding amounted to €32,133 million at the end of 2005. The total number of new issues stood at €25,700 million, 12% more than in 2004.

	EU average	France
GDP growth (EU 25)	1.6%	1.2%
Unemployment (EU 25)	8.7%	9.5%
Inflation (EU 25)	2.1%	1.9%
% owner occupied	65.0%	56.2%
Residential Mortgage loans as % GDP	47.5%	29.4%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	8.3
Total value of residential loans, € million, (EU 25)	5,138,835	503,600
Annual % house price growth (Euro zone)	7.7%	14.7%
Typical mortgage rate (Euro zone)	3.91%	3.5%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	6.4%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:

• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)

• EU owner occupation rate average derived from EMF calculations based on latest available data. France=2002

IRELAND

By John Clinton, Irish Mortgage Council

MACROECONOMIC OVERVIEW

The buoyancy of economic conditions in Ireland continued from 2004 into 2005 with a gross domestic product (GDP) increase of 4.7% (up from 4.5% in 2004) and a 5.4% expansion in gross national product (GNP). Furthermore, inflation decreased slightly from 2.3% in 2004 to 2.2% in 2005, this figure was well below the 5 year high of 5.3% in 2000. Alongside continuing population increases (to over 4.1m inhabitants for the first time since the mid-nineteenth century), unemployment remained at a historic low of 4.3%.

HOUSING AND MORTGAGE MARKETS

In the context of the continued economic strength referred to above, activity in housing and mortgage markets remained robust throughout 2005 with record levels of housing completions and mortgage lending. Close to 81,000 new units were completed in 2005, up from 77,000 the previous year. At the end of 2005, the average price of a new dwelling was €287,134 with the average second hand house costing €351,530. Prices and activity in the major urban areas of Dublin (and its surrounding counties), Cork, Galway, Limerick and Waterford remain ahead of national averages with prices in Dublin particularly strong when compared to the national average.

As at the end of 2005, total residential mortgage debt outstanding to Irish residents stood at just under €99bn following a net lending figure for the year of €22bn. This represented a 28.5% increase in the level of residential mortgage debt outstanding. The year on year increase in gross residential mortgage lending was 27.2% for a total of €21.5bn. These lending levels were underpinned by continually low Euro zone interest rates in 2005. The moderate rate increases towards the end of the year had not adversely impacted market growth in the calendar year given continued inward migration, low unemployment and, ultimately, continued strong demand for housing.

2005 also saw the entrance to the Irish mortgage market of a number of new participants. The new offerings from these participants were focused primarily on the sub-prime market, further enhancing the range of product availability in the Irish mortgage market. With Irish, British, Belgian, Dutch and Danish owned lenders competing in the Irish market, it is already something of a 'European' marketplace, notwithstanding the European Commission's ongoing efforts to accelerate the pace of the integration of Europe's mortgage markets.

Based on an extrapolation of the number of housing units and the average house price (figures from the Department of the Environment), the value of residential mortgage properties in Ireland stood at €602bn at the end of 2005. As such, the outstanding residential mortgage debt figure of €99bn referred to above constitutes a notional 'national loan to value' of close to 16.5%. Mortgage lenders continue to adhere to prudent lending standards, guided by the supervision of the Financial Regulator. This includes the stress testing of new mortgages at 2% above current market interest rates. With no increases in provisioning levels and bad debts, lenders remain cautious, but optimistic, regarding the mortgage market as it moves towards a phase of more moderate growth. The anticipated slow down in house price growth should favourably impact affordability, particularly for first time buyers.

The general outlook among domestic economic commentators is that the mortgage market is currently in the process of moving into a period of greater relative stability in which house price growth will significantly moderate. With supply of new housing now catching up with demand, this stabilisation of house price growth to single digit figures is likely to be reflected by more moderate growth in lending levels. However, in the absence of a major external shock (such as a global economic downturn or a significant interest rate hike), the continuing fundamentals underpinning the Irish mortgage market remain, and the market is likely to continue to grow. These fundamentals include strong employment, a young population, inward migration, relatively low interest rates and a high (relative to the European average), but declining, average household size.

FUNDING

In general, mortgage lending in the Irish market continues to be funded through a range of sources, including customer deposits, commercial paper and inter-bank lending. The proportion of outstanding residential mortgage lending funded by mortgage backed securities declined from 5.1% at the end of 2004 to 4.7% at the end of 2005, with just one new issuance of MBS in the Irish market during the calendar year. Throughout 2005, the Bank of Ireland Mortgage Bank remained the sole issuer of covered bonds (Asset Covered Securities) secured by mortgages on residential property in Ireland. In July of 2005, BoIMB doubled its total bonds in issuance with a second €2bn transaction. Bank of Ireland's status as the only issuer of residential mortgage ACS lasted until early 2006 when Allied Irish Banks also entered the market. The Asset Covered Securities legislation continues to be successfully employed by Depfa Bank and West LB CBB in public sector debit transactions.

	EU average	Ireland
GDP growth (EU 25)	1.6%	4.7%
Unemployment (EU 25)	8.7%	4.3%
Inflation (EU 25)	2.1%	2.2%
% owner occupied	65.0%	77.0%
Residential Mortgage loans as % GDP	47.5%	61.7%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	24.1
Total value of residential loans, € million, (EU 25)	5,138,835	98,956
Annual % house price growth (Euro zone)	7.7%	10.6%
Typical mortgage rate (Euro zone)	3.91%	3.7%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	4.2%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Ireland=2004

ITALY

By Angelo Peppetti, Associazione Bancaria Italiana

MACROECONOMIC OVERVIEW

In 2005 the GDP growth was 0%. The main reason was the difficulty of exporters in taking advantage of the rapid expansion of world trade, owing to structural factors that hamper both the redirection of production to high-tech sectors and progress in the reorganization of, and innovation in, industry. The uncertain outlook increased the caution of households and of firms in making spending plans. Inflation was in line with the European average of 2.2%. The public debt rose in proportion to the GDP from 106% to 108%.

HOUSING AND MORTGAGE MARKETS

The building industry continued to grow. For the seventh consecutive year, construction investment grew, although more modestly than in 2004. The increase in 2005 was 0.5%, bringing it to €137.83 billion. The growth in construction investment can be attributed mainly to residential building (up 2.5% from 2004), which absorbed 52.3% of total construction investment. In contrast, non-private residential building recorded another negative year, with a drop of 1.1% in investment in real terms following two years of contraction.

The overall home mortgage market expanded by 18.7% in 2005 to €243.66 billion, while the volume of non-residential mortgages rose by 12.1% to more than €104.4 billion. Net lending increased by 13% (€37.28 billion). Gross lending reached almost €80 billion in 2005 (an increase of 16% over 2004).

FUNDING

Law 180/2005 finally enacted the long-awaited legislation on covered bonds in Italy. The law will enable Italian banks to bridge the gap with issuers operating in jurisdictions where covered bonds are already issued, either under specific legislation or in a contractual form, such as in the UK.

The Italian covered bond is a structured covered bond:

> The originating bank assigns the covered asset pool to a Special Purpose Vehicle (SPV) constituted under Law 130/99 on securitisation.

> The originating bank also finances the operation, through a subordinated loan.

> The originating bank issues the covered bonds, which are guaranteed by the cover pool assigned to the SPV.

> The SPV re-pays the subordinated debt out of the income derived from the loans included in the cover pool.

In 2006 the Ministry of the Economy and Finance and the Bank of Italy initiated, together with the Italian banking system, specific consultation procedures on the implementing regulations for Law 80/2005. The latter will govern the features of the covered bonds and the banks authorized to issue them. The regulations will comply with the requirements laid down in Directive 2006/48/EU, transposing the New Capital Accord (Basel 2) so as to obtain more favourable ratings for banks that have such bonds in their banking books.

The implementing regulations are scheduled to be issued before the end of the year.

	EU average	Italy
GDP growth (EU 25)	1.6%	0.0%
Unemployment (EU 25)	8.7%	7.7%
Inflation (EU 25)	2.1%	2.2%
% owner occupied	65.0%	80.0%
Residential Mortgage loans as % GDP	47.5%	17.2%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	4.2
Total value of residential loans, € million, (EU 25)	5,138,835	243,622
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	4.1%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Italy=2002

CYPRUS

MACROECONOMIC OVERVIEW

In 2005, GDP grew by 3.8%, which is slightly lower the 3.9% increase recorded in 2004. However, this growth rate is more than double the GDP growth rate of both, the EU15 & EU25.

In 2005 Cyprus also experienced a worsening of the unemployment rate, which rose from 4.7% to 5.3%. This deterioration is somewhat relative as the unemployment rate in Cyprus is far below the EU25 rate (8.73%). The inflation rate increased slightly, from 1.9% in 2004 to 2.0% in 2005. However, it remains below the EU average of 2.2%.

HOUSING AND MORTGAGE MARKETS

In 2005, outstanding residential mortgage loans grew substantially, by 44% and reached €2,144 million at the end of the year. Outstanding mortgage loans in Cyprus recorded one of the highest growth rates in the EU25. Moreover, this figure does not take into account the entire mortgage market, but refers only to loans to individuals for the purchase of existing houses or apartments, while loans for the purchase of land or for building purposes are not taken into account.

The value of a property in Cyprus is one of the least expensive of the Mediterranean region, which experienced an average increase of 20% per year between 2000 and 2004. Comparatively, prices rose by 15% in Cyprus during the same period. Moreover, after 4 years of consecutive high increases, house prices in Cyprus have stabilised at a rate of about 7% since last year.

Since 2003, the number of building permits has grown at an average rate of 9.9%, although this growth was negative until 2000. In 2005 the number of building permits increased by 10.3% and reached the highest level over the past ten years.

This rising trend in demand and prices stems from several reasons. Firstly, the introduction of facilities for long-term loans with maturities up to 30 years, which were not previously available, played a key role. Secondly, speculative activity had an impact on house price increases before 1st May 2004. People expected that once Cyprus joined the European Union, prices would increase. Finally, the fact that Cyprus became a more attractive region for tourists has also had an impact on prices and demand.

FUNDING

There is no covered bond and mortgage backed securities market in Cyprus. Housing loans are financed by deposits.

	EU average	Cyprus
GDP growth (EU 25)	1.6%	3.8%
Unemployment (EU 25)	8.7%	5.3%
Inflation (EU 25)	2.1%	2.0%
% owner occupied	65.0%	68.3%
Residential Mortgage loans as % GDP	47.5%	16.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	2.9
Total value of residential loans, € million, (EU 25)	5,138,835	2,144
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	6.2%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Cyprus=2001

LATVIA

By Peeter Peda, AmCredit Latvija AS

MACROECONOMIC OVERVIEW

The GDP increased by 10.2% in 2005. This was supported mainly by rapid growth in the trade, transport, communications, manufacturing and construction sector.

The results of the Labour Power Survey show that there were 99.1 thousand unemployed persons in Latvia in 2005, namely 8.9% of the economically active population. In 2005 both, the number of unemployed and the proportion of unemployed persons' as a percentage of the economically active population, decreased.

Preparing for Latvia's full-fledged participation in the EMU, the Bank of Latvia pegged the Lats rate to the Euro (1 EUR = 0.702804 LVL). Thus, in early 2005, the former base currency for mortgage lending USD was replaced by the Euro.

HOUSING AND MORTGAGE MARKETS

Active construction of new residential buildings continued in 2005. According to the data of the Central Statistical Bureau, new residential buildings with a total floor space of 552.2 thousand m2 were commissioned in 2005. The commissioning of residential buildings increased by 22% in 2005. One of the main indicators for the housing stock - the total floor space per capita – reached 24.6m2 in 2005. Previously it was 19.2 m2 in 1990 and 22.6 m2 in 2000 respectively.

The highest demand in the real estate market was for standard type apartments in blockhouses where the average price per square meter approached € 903 in Riga. The prices jumped by 70-90% for newly constructed apartments in the capital of Latvia. Approximately 4,500 new apartments came to market in Riga. In December 2005, the apartment prices in the Riga old town ranged from €3500 to €5000 per square meter.

The lending growth rate remained high in 2005 and the portfolio of credit granted by commercial banks to private individuals almost doubled. The commercial banks concentrated particularly on the promotion of mortgage loans introducing special conditions and reduced interest rates. With increasing banking competition in mortgage lending, the weighted average interest rates of loans granted in Euros to households for house purchase declined in the first quarter of 2005 to 4.8%, but increased thereafter to 5.5% by the end of year. Most of the new mortgage loans have a variable interest rate, usually based on the 6 months Euribor index. Loan maturities reach up to 40 years and LTV ratios are 80-90%. With the increase in lending volume, the quality of loans from banks did not substantially change.

The volume of loans issued for house purchases, reconstructions and renovations increased by 91%. The average loan size at the end of 2005 was 16 900 Lats (€ 24,050). The ratio of housing loans to GDP in Latvia increased from 7.7% at the end of 2003 to 21% at the end of 2005. Earnings and purchasing power have risen and loan opportunities have improved every year. Thus, the demand for residential property is expected to remain high.

FUNDING

Although the amount of bank deposits in 2005 increased by 21.7%, their share of banking liabilities shrank by 8.2 percentage points and on 31 December 2005 totalled 56.7%. The amount of liabilities of banks to monetary financial institutions (MFI) kept growing and their share of banking liabilities at the end of December totalled 29.9%, compared to 21.1% a year earlier. Almost 84% of total banking liabilities to MFI were liabilities to credit institutions of OECD countries, the major part of which, 85.3%, was financing by foreign banks to their Latvian subsidiaries and branches. The state-owned Mortgage and Land Bank of Latvia has increased the volume of mortgage bonds in circulation by 10%, reaching 41.8 million Lats at the end of the year.

	EU average	Latvia
GDP growth (EU 25)	1.6%	10.2%
Unemployment (EU 25)	8.7%	8.9%
Inflation (EU 25)	2.1%	6.9%
% owner occupied	65.0%	86.0%
Residential Mortgage loans as % GDP	47.5%	19.6%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	1.1
Total value of residential loans, € million, (EU 25)	5,138,835	2,509
Annual % house price growth (Euro zone)	7.7%	48.6%
Typical mortgage rate (Euro zone)	3.91%	5.2%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	1.6%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Latvia=2005

LITHUANIA

By Peeter Peda, AmCredit Latvija AS

MACROECONOMIC OVERVIEW

Lithuania's GDP grew by 7.5% in 2005, which was the second highest growth rate recorded in the EU25. Similar growth rates are expected to occur in the forthcoming years. Annual inflation was 2.7%. At the same time, prices for the construction of residential buildings jumped by 9.2% during the year.

In 2005, the number of unemployed people was the lowest of the last eight years. The unemployment rate fell to 8.3% in 2005 compared to 16.5% in 2001. This downward trend has been explained by the dynamism economic growth and the increasing number of people emigrating to work in other EU countries. Average monthly gross earnings increased by 10.9% during the 4th quarter of 2005 compared to the same period of 2004.

HOUSING AND MORTGAGE MARKETS

The residential market in Vilnius was dynamic throughout 2005 and prices moved up quickly. Most new apartments were sold before completion and the demand for new constructions strongly exceeded the supply. Demand for older Soviet-style apartments was also very high. In 2005 the prices of both, newly built and older Vilnius apartments, leapt by 40%-60% in suburban districts. Depending on location, the prices for apartments in normal condition were typically between 1000 and 1600 EUR per m2 in the capital, Vilnius.

According to data of Statistics Lithuania, 2,724 new residential buildings were constructed in Lithuania during 2005. They included 5,933 dwellings, the useful floor area of which totalled to 651.6 thousand m2 (i.e., 47.5 thousand m2 less than in 2004). Approximately 57% of all Lithuania's dwellings were constructed in Vilnius. In 2005, 5,488 permits were issued for the construction of 5,725 residential buildings (i.e., 1,487 permits more than in 2004) of which 98% were for the construction of 1- or 2 dwelling buildings.

Both moderate key interest rates and declining loan margins arising from competition have facilitated loan growth. Loans for house purchase continued to make up the largest proportion of loans granted to individuals in 2005. Over the year, loans extended by banks to individuals for house purchase jumped by 86.5% or LTL 3 billion. Mortgages as bank products have gained popularity only in recent years. Therefore, their volume has been among the lowest in the EU. By the end of 2005, the ratio of housing loans to GDP in Lithuania had reached 9%.

The interest rate of residential mortgage loans reached its historical low of 3.03% in 2005 (loans in EUR with a fixation period of up to 1 year) which was lower than the respective Euro area average in the second quarter of 2005. Earnings and purchasing power have risen and loan opportunities have improved every year. Therefore, the demand for residential property remains very high.

FUNDING

As in previous years, deposits of private enterprises and individuals, accounting for 56% of banks' liabilities, remained the main financial source for banks, according to the Bank of Lithuania. However, the share of the deposits shrank by 5 percentage points compared to 2004. The increase in deposits and other funds that were attracted to the retail market was insufficient to finance the expanding loan portfolio in 2005. Therefore, the banks borrowed the necessary funds from other financial institutions, mainly parent credit institutions in Scandinavia and Germany.

	EU average	Lithuania
GDP growth (EU 25)	1.6%	7.5%
Unemployment (EU 25)	8.7%	8.3%
Inflation (EU 25)	2.1%	2.7%
% owner occupied	65.0%	97.9%
Residential Mortgage loans as % GDP	47.5%	11.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.7
Total value of residential loans, € million, (EU 25)	5,138,835	2,268
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	3.3%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	0.6%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Lithuania=2004

LUXEMBOURG

MACROECONOMIC OVERVIEW

GDP growth remained strong, although it declined slightly from 4.2% in 2004 to 4.0% in 2005. The main driver for GDP growth was the export sector.

The inflation rate keeps rising and increased from 3.2% to 3.8%. The National Bank of Luxembourg expressed some concerns with the continued increase in the inflation rate. It argued that this could be the result of indirect taxes, public tariffs, salary developments that are not in line with other Euro zone countries and/or structural inefficiencies.

The unemployment rate decreased from 5.1% in 2004 to 4.5% in 2005[27].

HOUSING AND MORTGAGE MARKETS

Lending for house purchase continued to increase at a sustained pace. It increased by 13.7% and reached 10,006 million EUR at the end of 2005. In 2005, loans for house purchase amounted on average to 164 million EUR per month, which is higher than the amount of 143 million EUR recorded the previous year. The continued growth of loans for the purchase of houses is due to strong demand, which stems from a number of factors:

> High construction prices and the high prices of land: The price of land in Luxembourg is very high, due to local planning rules that limit land available for construction purposes. High land prices and high construction costs are obviously reflected in the level of house prices. In order to reduce land, construction and house prices, the State took fiscal measures in 2002 to increase the supply of both housing and land for construction purposes. The positive impact of these measures is, however, not yet visible. There was no decline in house price inflation and latest available data on house prices shows that house price inflation was approx. 13% in 2004.

> The relatively low level of interest rates has fuelled demand for housing loans: Interest rates on mortgage loans continued to decline in 2005. The variable rate of mortgage loans (most mortgages in Luxembourg have variable rates) decreased until the 2nd quarter of 2005. During the 3rd and the 4th quarters, however, interest rates began to rise, due to the expectation of a raise in the ECB repo rate and then the effective rise in December 2005. Despite their increase, mortgage interest rates remain at a relatively low level.

The construction sector continued to benefit from scarce supply, sustained housing demand and high building prices. For instance, building prices continued to rise and increased by 3.1%. The dynamism in the construction sector is reflected in the number of building permits issued, (19.7%), the highest increase recorded in the past few years.

Lending for house purchase amounts to 81% of total lending to residents, but forms only a very small share of total lending to households of other Euro-zone countries. During 2005, however, loans for house purchase to households in other Euro-zone countries increased by 7.7%. This type of lending is made up largely by lending to commuters. For instance, a number of individuals purchase a home at the border and commute to Luxembourg, as house prices there are lower than in Luxembourg.

27 According to the National Bank of Luxembourg the unemployment rate increased from 3.7% to 4.2% and it is expected to continue increasing in 2006, despite a slight decrease during the first months of 2006.

	EU average	Luxembourg
GDP growth (EU 25)	1.6%	4.0%
Unemployment (EU 25)	8.7%	4.5%
Inflation (EU 25)	2.1%	3.8%
% owner occupied	65.0%	66.6%
Residential Mortgage loans as % GDP	47.5%	34.1%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	22.0
Total value of residential loans, € million, (EU 25)	5,138,835	10,006
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	4.1%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Luxembourg=2002

References:
Bank of International Settlements (2006), The Luxembourg market for housing finance
National Bank of Luxembourg, Financial Stability Review 2005

HUNGARY

By Gabor Botka, FHB Land Credit and Mortgage Bank

MACROECONOMIC OVERVIEW

The dynamic Hungarian economy has slowed recently. The Hungarian GDP growth was 3.6% in 2005. After the strong 5.2 percent growth in 2004, this indicates a slowing in the dynamism of overall growth. Despite the decline, the growth rate exceeded that of the Euro-zone, the EU and the United States. The United States achieved 3.5% growth while growth in the Euro-zone was 1.3% and in the EU-25, 1.6% percent.

The main driving force behind a still dynamic Hungarian economic growth is industry, the building industry and export-oriented services. Agricultural performance shows a drastic decline.

According to Central Statistics Office reports, the year-to-year increase in consumer prices in December 2005 was 3.3%. The average annual inflation rate in 2005 was 3.5% compared to 6.8% in 2004. With the exception of January, the year-to-year increase in consumer prices stayed below 4% every month.

The working population during the period of November 2005 to January 2006 numbered 3.90 million people. The number of unemployed persons amounted to 318 thousand, which according to Eurostat corresponds to an unemployment rate of 7.2%. The increase in the number of unemployed persons was more than 43 thousand during the year.

HOUSING AND MORTGAGE MARKETS

According to the preliminary data of KSH, there was a slight decline in the performance of the housing market in 2005. A total of 41 thousand licenses of usage and 51.5 thousand building permits were issued for new homes. The number of licenses of usage was 6% less, whereas the number of new building permits was 10% less than in 2004.

The total value of loans extended to households increased by approximately 800 billion HUF in 2005. The contribution of foreign exchange denominated loans to both housing loans and consumer credits has been increasing. Housing loans to households increased by 373.2 billion HUF to reach a total of 2,283.3 billion HUF in 2005. However, the increase in gross lending was stronger, reaching 479.5 billion HUF. In fact, outstanding loans, were substantially reduced by repayments and prepayments made during the year. Consequently, the increase in housing loans, although still high, fell short of the 2002 and 2003 figures. The effect of repayments was felt almost exclusively in the segment of older loans that were denominated in national currency and much less on FX denominated loans, which began to rise spectacularly in 2004. In 2005 the aggregate value of newly extended national currency loans exceeded a hundred billion HUF which was far below the amount of newly extended FX loans. FX loans outstanding reached 472.5 billion HUF by the end of December 2005, which corresponds to an increase of 327.9 billion HUF.

The monthly growth rate of HUF denominated housing loans also reflects this significant slowdown. The average increase of 23 billion HUF in 2004, which was already slower than in previous years, dropped to 4 billion HUF in 2005.

There was a significant increase in the level of home equity loans provided to households in 2005. The amount of this type of loan has almost reached 388 billion HUF. This corresponds to a level more than twice as high as the level of the previous year.

Despite the rapid increase in lending to households observed in recent years, the level of Hungarian households' total loans still falls behind the values recorded in most of the more developed lending markets. On average, the indebtedness indicator based on disposable income is more than twice as high in the Euro-area. However, due to the composition of indebtedness (a higher share of consumer housing loans), the higher domestic interest level and characteristics of the credit market (level of competition and risk), the households' debt service burden (amount of interest and principal repayment as a proportion of disposable income) is close to the values of developed countries.

According to a survey, approximately 60 per cent of borrowers do not have any liquid financial savings, which contributes to a further increase in risks. In 2005, due to a slowdown in the increase in outstanding debt, the gap between the growth rates of outstanding debt and disposable income narrowed. Based on recent calculations, growth of the debt service burden slowed down notably in parallel with a dynamic increase in income. The main reasons were the increasing popularity of foreign currency loans and a marked shift to longer maturity mortgage loans (which involve lower credit cost).

As long as households do not have any negative experience with major exchange rate movements, foreign currency lending is expected to continue due to the existence of the interest differential. Mortgage lending is expected to increase, although short-term HUF loans with high costs are expected to stagnate in the future. Based on the foregoing, the increase in the debt service burden is predicted to be lower than the growth rate of indebtedness. (Source: National Bank of Hungary - Report on Financial Stability April 2006)

FUNDING

Since the main channel of lending subsidies is bound to the issuance of mortgage bonds, funding has been mainly provided by the help of this facility. Due to the cut in the lending subsidies because of government budgetary imbalances, foreign currency based loans have assumed greater importance in 2005. Almost 60% of gross residential mortgage lending was foreign currency based in the period. This trend certainly affected mortgage bond funding: It caused a lower demand for this instrument because most commercial banks tried to find alternative ways of funding by using loans provided by their mother banks. The introduction of foreign currency based loans also encouraged Hungarian mortgage banks to appear in foreign capital markets with mortgage bonds denominated in euros. As a consequence, the level of outstanding mortgage bonds could not increase as rapidly as the level of outstanding residential mortgage loans and reached 1278,8 bn HUF at the end of 2005 compared to 1220,8 bn HUF at the end of 2004.

	EU average	Hungary
GDP growth (EU 25)	1.6%	3.6%
Unemployment (EU 25)	8.7%	7.2%
Inflation (EU 25)	2.1%	3.5%
% owner occupied	65.0%	92.2%
Residential Mortgage loans as % GDP	47.5%	10.5%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.9
Total value of residential loans, € million, (EU 25)	5,138,835	9,205
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	55.1%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Hungary=2003

MALTA

MACROECONOMIC OVERVIEW

Following two years of negative growth, GDP finally increased by 2.5% in 2005. The main drivers for growth were increased domestic demand in the form of a recovery in private consumption and strong growth in investment. Household private consumption expenditures increased by 1.4% in 2005. The higher consumption also reflected a strong expansion of personal loans over the year.

The inflation rate decreased from 2.7% in 2004 to 2.5% in 2005. A contributor to the decline in the overall rate of inflation was the absence of an increase in the restaurant and hotels sub-index.

The unemployment rate remained stable at 7.3%.

HOUSING AND MORTGAGE MARKETS

During 2005, the increase in lending to households was mainly driven by loans for house purchase. Consumer credit remained broadly unchanged, while loans for house purchase grew by 22.9%. The major reasons for the buoyant mortgage market are high property prices and the relatively low level of interest rates.

House price inflation remains high at 10.4%, despite a decrease from its growth rate of 16.9% in 2004. All categories of property, except town houses, which dropped marginally, experienced growth in house prices. The sharpest rise in house prices was recorded in the terraced house category. The major reasons for sustained growth in house prices are the continuing shift in preferences towards real estate (as opposed to financial assets), as well the small Maltese rental market, which increases the drive for home-ownership.

Due to sustained growth in lending for house purchase, the mortgage debt to GDP ratio continues to rise. It increased in only six years from 1999 to 2005 - from 8% to 33%. The ratio, however, remains low in comparison to the European average (47.5%). In addition, default rates by borrowers for the purchase of property have been traditionally low and remain on a decreasing trend.

	EU average	Malta
GDP growth (EU 25)	1.6%	2.5%
Unemployment (EU 25)	8.7%	7.3%
Inflation (EU 25)	2.1%	2.5%
% owner occupied	65.0%	74.1%
Residential Mortgage loans as % GDP	47.5%	33.8%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	3.8
Total value of residential loans, € million, (EU 25)	5,138,835	1,519
Annual % house price growth (Euro zone)	7.7%	10.4%
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:

• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)

• EU owner occupation rate average derived from EMF calculations based on latest available data. Malta=2000

References:

Central Bank of Malta, Annual Report 2005

THE NETHERLANDS

MACROECONOMIC OVERVIEW

In 2005 the Dutch economy grew by 1.1%, which is below the growth rate of 1.7% in 2004. Economic growth was driven mainly by exports, although the latter declined in comparison to 2004. The Netherlands is suffering from an erosion of price competitiveness from countries outside the Euro area due to the rapid increase in unit costs.

After three years of decline, inflation picked up again from 1.4% in 2005 to 1.5% in 2005. The rise in inflation was mainly due to the price rise of energy products. It is, however, below the EU average of 2.1% and the Netherlands has the lowest inflation rate in the EU after Finland.

There seems to be signs of improvement in the labour market, although the unemployment rate increased from 4.6% to 4.7% and the number of jobs fell by 0.4% during 2005. In fact, employment in business services (through temporary employment agencies) expanded and the job vacancy rate increased, reaching 22% during the 3rd quarter 2005 (twice as high as in 2003 when the labour market was very loose)

THE HOUSING AND MORTGAGE MARKETS

The size of the Dutch mortgage market was EUR 487 billion in 2005 and its growth rate was 11%. Growth in mortgage debt was fostered by intense competition between banks and the historically low interest rates. The mortgage debt to GDP ratio experienced an extremely high increase from the already high level of 89% in 2004 to a level of 97% in 2005. It is the highest ratio of the countries analysed in this report. It can be explained by the particularly generous tax treatment in the form of interest relief[28].

Growth in gross lending was also very strong at 30%. In terms of volume, gross lending accounted to € 114,134 billion, which has been the highest level ever reached. This strong increase was due to the high levels of refinancing activity. However, interest rates started to increase at the end of 2005 and refinancing activity is expected to decline.

House price growth picked up again and the growth rate increased from 4.3% in 2004 to 4.8% in 2005. House prices grew despite the rise in the number of housing completions and building permits in 2005. In fact, residential investment is improving in line with the economic recovery and is expected to contribute to economic growth in 2006.

In 2005, the number of foreclosures was 1,911 in comparison to 1,500 in 2004. This corresponds to an increase of 25%, although they account only for 0.9% of all transactions. During the last months of 2005, the rising trend came to a halt due to two major reasons - on the one hand, the economy bottomed out and on the other hand, new incentives were introduced by the National Mortgage Guarantee in order to offset the rising numbers of mortgage defaults.

FUNDING

Most lending is financed through deposits and only 0.4% of residential lending is financed through mortgage bonds. Total mortgage bonds outstanding in the Netherlands amount to € 2000 million. There is no specific legal framework or specific covered bonds legislation in the Netherlands. Covered bonds are structured on the basis of general Dutch legislation based on contractual arrangements under civil law.

28 The Dutch government is currently in the process of reducing the interest rate relief.

	EU average	Netherlands
GDP growth (EU 25)	1.6%	1.1%
Unemployment (EU 25)	8.7%	4.7%
Inflation (EU 25)	2.1%	1.5%
% owner occupied	65.0%	54.2%
Residential Mortgage loans as % GDP	47.5%	97.1%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	29.9
Total value of residential loans, € million, (EU 25)	5,138,835	487,322
Annual % house price growth (Euro zone)	7.7%	4.8%
Typical mortgage rate (Euro zone)	3.91%	4.1%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	0.4%

Source: EMF, EUROSTAT, ECB, Dutch Central Bank, Het Kadaster National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Netherlands=2002

References:
De Nederlandsche Bank, Annual report, 2005
De Nederlandsche Bank, Financial Stability Review, 2005
NIBC BANK N.V. Mortgage Brief March, 2006 and July, 2006

AUSTRIA

MACROECONOMIC OVERVIEW

Austria's real GDP growth dropped from 2.4% in 2004 to 1.8% in 2005. GDP growth is, however, only slightly below the EU average. The main drivers for growth were strengthened exports and the dynamic development of the industrial sector.

The average inflation rate in 2005 was 2.1%; Remarkable, however, was the drop in inflation towards the end of the year; It continued to drop in 2006. In January and February 2006, inflation stood at 1.5%; in March it decreased to 1.3%.

The Austrian labour market is still experiencing a rising unemployment rate, which increased from 4.8% in 2004 to 5.2%.

HOUSING AND MORTGAGE MARKETS

Loans for house purchase account for 2/3 of total lending to private households in Austria. Home loans have increased significantly over the past years. From 2001 to 2005, outstanding balances have almost doubled. In 2005 they grew by 11% (which is, however, below the growth rate of 21% recorded in 2004). Two main factors contributed to the sustained mortgage market growth. On the one hand, financing conditions for loans were favourable. This was confirmed by the Bank Lending Survey, which states that loan conditions for house purchase remained stable in 2005. On the other hand, interest rates for all loan maturities (with the exception of interest rates fixed for a period over 10 years) decreased during all quarters of 2005.

Despite substantial mortgage market activity, the real estate market did not boom as it did in other EU countries. Conversely, Austria recorded negative house price inflation, or very low house price growth, over the past years. In 2005, however, house prices exhibited, for the first time, a significant upward trend. They increased by 4.9%.

It is worth noting that foreign currency loans are very popular in Austria; 1/3 of total loans are in foreign currency. They are especially taken out as mortgages and are mainly issued in Swiss Francs. Generally, foreign currency loans are more common in the new Member States due to the substantial differential in interest rates. In Austria, the reasons are not entirely clear, but the Central Bank of Austria relies on two major explanations:

1) Interest rates in Swiss Francs and Japanese Yen are low compared to Euro interest rates. (Thus, the interest differential argument can be applied also to Austria, although the interest rate differential is smaller).

2) The boom in foreign currency loans first began in Vorarlberg, a province in the western part of Austria. In this province, loans in Swiss Francs provided a practical alternative to loans in Euros, due to the region's strong economic relations with Switzerland and Liechtenstein, based on (among other things) the large number of cross-border commuters in the area. For instance, foreign currency loans boomed first in this region and only later spread to the rest of Austria.

The demand for foreign currency loans remained high in 2005. By the end of the year, foreign currency borrowing had reached a share of 31% of total loans to households. The National Bank of Austria expressed some concern with regard to the exchange rate risk associated with these types of loans. However, it emphasized that the Austrian households' debt to GDP ratio (44.6%) and mortgage debt to-GDP ratio (21.3%) ratio remain relatively low in comparison to the corresponding Euro zone's ratios.

	EU average	Austria
GDP growth (EU 25)	1.6%	1.8%
Unemployment (EU 25)	8.7%	5.2%
Inflation (EU 25)	2.1%	2.1%
% owner occupied	65.0%	56.8%
Residential Mortgage loans as % GDP	47.5%	21.9%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	6.6
Total value of residential loans, € million, (EU 25)	5,138,835	53,815
Annual % house price growth (Euro zone)	7.7%	4.9%
Typical mortgage rate (Euro zone)	3.91%	3.6%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	6.6%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Austria=2003

References:
Financial Stability Review 2005, National Bank of Austria
Annual Report 2005, National Bank of Austria

POLAND

By Magdalena Mikołajczyk, Mortgage Credit Foundation

MACROECONOMIC OVERVIEW

2005 was a year of low inflation and of slight improvement in the labour market. The annual average inflation was 2.2%. This level was driven mainly by Polish zloty appreciation, a still relatively high unemployment rate and decreasing inflation expectations. The biggest decrease in the unemployment rate since 1997 occurred in 2005. It amounted to 17.7%, (approx. 2.0% less than in 2004.)

The GDP grew by 3.2%, which is 2.1% less than in 2004 (year of accession boom), but twice as high as the EU 25 average. The main drivers of economic growth were domestic demand and the accelerating pace of investments.

The economic situation in 2005, in particular the inflation tendency, resulted in a decrease of market rates. The reference rate came down by 75 basis points (in comparison to 2004), amounting to 4.5% at year-end.

HOUSING AND MORTGAGE MARKETS

In 2005 114 thousand dwellings were completed. This corresponds to 6 thousand more dwellings than in 2004. There were 124 thousand building permits issued in 2005, the majority of which were for individual investors. The most dynamic residential markets in Poland were in Warsaw, Krakow and Wroclaw. 2005 saw a trend in acquisition of residential units for investment purposes by foreign purchasers. Investors, mainly from the UK, Ireland and Spain, purchased packages of several dozen units.

An increased housing demand after Poland joined the EU, a limited supply of stock, due to a lack of master plans and long administrative procedures for securing building permits, have contributed to the increase in prices of new residential units. Prices grew by some 10 to 20% in 2005, depending on location. The most important driver of the growing demand for residential mortgages has been the easing of the mortgage approval conditions in 2005. The following factors have also influenced the growth of demand in this part of the market: the residential market situation and households' better economic conditions. The mortgage debt of households amounted to about 59 billion PLN as of the end of 2005, which was 1/3 of all their banking obligations. According to market forecasts, mortgage debt outstanding is expected to increase by 20% during the following few years.

The average weighted interest rate of credit to households for house purchase denominated in PLN followed the general market interest rates and declined from a level of 8% to 6% by the end of 2005.

The year 2005 saw an increasing number of mortgage product innovations: Very long maturities (up to 45 years), higher LTV ratios (even beyond 100% LTV), different promotions (e.g. 24 hours initial credit decision from receipt of client's documents), no repayment – bullet mortgages, credits with longer grace periods, no-doc mortgages

New regulations on costs related to registration of mortgages were announced in 2005 and took effect on 1st March 2006. The new law is likely to increase the number of credits with mortgage collateral due to a significant reduction of registration costs, as well as other costs related to property rights.

In 2005, discussions began with the Polish banking supervision authority on the currency risk of mortgage portfolios, as well as on good practice related to mortgage receivables.

The ratio of irregular[29] residential credit on total residential credit (residents only) continued the trend of 2004, amounting to 4.35% at the end of 2005, which is still the lowest ratio in all categories of credit to non-financial customers. It is worth mentioning that there is a significant difference in the ratio when taking into consideration the currency in which the mortgage credit is denominated.

29 Irregular does not mean loss.

For PLN mortgages, the ratio amounted to 7.5%, whereas the ratio for FX mortgages was 1.7% as of the end of 2005.

FUNDING

There were no significant changes in the structure of mortgage funding in Poland in 2005. The majority of mortgage lenders (universal banks) still relied heavily on savings from private individuals and companies. However, new mortgage bond issues took place. The volume of covered bonds issued by mortgage banks in 2005 amounted to PLN 882.6 million.

	EU average	Poland
GDP growth (EU 25)	1.6%	3.2%
Unemployment (EU 25)	8.7%	17.7%
Inflation (EU 25)	2.1%	2.2%
% owner occupied	65.0%	75.0%
Residential Mortgage loans as % GDP	47.5%	6.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.4
Total value of residential loans, € million, (EU 25)	5,138,835	14,646
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	6.0%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	3.0%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:

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

PORTUGAL

By Jesus José Martins, Caixa Economica Montepio Geral

MACROECONOMIC OVERVIEW

In 2005 the Portuguese economy lost pace and GDP growth dropped from 1.2% to 0.4%.The deceleration in economic activity can be mainly attributed to the low rise in internal demand (only 0.6%), particularly the 3.1% fall in investment and the deceleration in private and public consumption. Against this backdrop of stagnation in economic activity, the rate of unemployment rose from 6.7% in 2004 to 7.6% in 2005.

The mean annual rate of inflation fell to 2.1% in 2005, down from 2.5% at the end of the previous year. This downward trend in the mean level of prices was largely due to the favourable performance of import prices and the slowdown in growth of salaries in the private sector from 3.2% in 2004 to 2.8% in 2005.

HOUSING AND MORTGAGE MARKETS

The share of construction and housing credit on total credit increased from 46% in 2004 to 48% in 2005, reflecting the strong competition in the mortgage market and the lower interest rates. In fact, after a weak performance in 2003, mortgage credit increased during 2004 (6.6%) and 2005 (10.6%). The average interest rate on housing loans decreased to 3.7% in 2005, slightly below the 2003 and 2004 levels (3.8%).

Portugal has undergone substantial growth in its housing supply during the past two decades. The dwelling stock recorded significant growth, by increasing by 53% during the past 20 years. In fact, Portugal has one of the highest ratios of dwellings per 1000 inhabitants: There are 482 dwellings per 1000 inhabitants compared to 446 dwellings per 1000 inhabitants in the EU 25. Housing output kept growing at a relatively sustained pace over the past few years, which enabled to satisfy the strong housing demand. This kept the house price growth rate low. In 2005, house prices increased by 2.8%. However, housing construction of new residential units is expected to decrease. Despite sustained construction activity, the Portuguese housing market is still characterised by a housing deficit for certain segments of the population. However, the expected increase in second homes, in renovation, as well as the improvement in the rental market, may help to increase supply in these segments.

Despite the expectations of a decrease in new housing construction, there is a huge potential demand for buildings, which can be explained by the following key factors: (1) a demand for better housing and for repair and renovation work (2) an increase in the number of families due to the upward trend in population and divorces (3) an increase in the immigrant population concentrated mainly in the working age bracket (20-44) (4) an improvement in the rental market with the expected new legal framework and (5) an increase in demand for second homes.

FUNDING

There are no covered bonds in Portugal. The Portuguese banking system has only recently adopted a new legislation on covered bonds - Portugal issues, however, mortgage backed securities (MBS). The value of MBS issued in 2005 was €7,000 million.

	EU average	Portugal
GDP growth (EU 25)	1.6%	0.4%
Unemployment (EU 25)	8.7%	7.6%
Inflation (EU 25)	2.1%	2.1%
% owner occupied	65.0%	75.0%
Residential Mortgage loans as % GDP	47.5%	53.9%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	7.6
Total value of residential loans, € million, (EU 25)	5,138,835	79,452
Annual % house price growth (Euro zone)	7.7%	2.8%
Typical mortgage rate (Euro zone)	3.91%	4.2%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Portugal=2003

SLOVENIA

MACROECONOMIC OVERVIEW

The Slovenian economy maintained a healthy growth rate of 3.9% for 2005, well ahead of the Euro-zone economies, but somewhat slower than many of the new Member States from formerly communist countries. The key economic interest in Slovenia at present is the prospect of joining the Euro-zone at the beginning of 2007. The prospects for membership look good with all key convergence indicators pointing in the right direction.

The inflation rate has been brought down dramatically over the past few years to just 2.5%, only slightly above the rate for the economies of the Euro-zone. The prospects for Slovenia joining the Euro countries remain good with a budget deficit of around 2% and a low overall debt level of just 29%, which is well within the convergence criteria. In addition, the Slovenian Tolar, which is in ERMII, has traded close to its central exchange rate versus the Euro for the past year. As a result of this gradual convergence and the stability accorded by low inflation and low government debt levels, interest rates in Slovenia have gradually moved towards Euro-zone interest rates.

HOUSING AND MORTGAGE MARKETS

The Slovenian Central Bank reports good lending conditions with households taking advantage of the low interest rates to finance the purchase, or the construction, of property. This has had a positive effect on the economy throughout the construction industry and related sectors. It has also led to strongly rising property prices.

Despite the convergence towards Euro-zone interest rates as Slovenia prepares to adopt the Euro, much of the bank lending remains in foreign currencies. Tolar lending to the non-bank sectors is just slightly higher than foreign currency lending. The majority of new lending is being done in foreign currency, with growth in Tolar lending to the non-banking sectors at 3.8% compared to an overall growth rate of 63.4% for the year up to May, 2006. It is worth noting that the Slovenian Central bank now collects data on housing loans from Monetary and Financial Institutions, which conforms with ECB data. This does, however, mean a break in the series in this report with a big jump in 2004 from the data previously originating from the Ministry of Finance.

Housing finance is still relatively underdeveloped in Slovenia, with long term housing loans representing just over 30% of total lending to households by banks. This is the opposite of most other countries where housing debt tends to form the largest liability class of households. The difficulties in enforcing the mortgage collateral make banks reluctant to expand this form of lending. Mortgage lending tends to be very low risk with a typical loan to value of around 50%. For this reason, the preferred form of secured lending tends to be debt-collateralised with loan insurance. However, this can limit the maturity of the loan (typically to 10 years), as well as shift credit risk into the insurance sector. Changes are underway though, according to the World Bank. Between 1998 and 2003, the percentage of new loans that were secured by a mortgage rose from 14.4% to 51.5% of lending. The Slovenian Government has also undertaken to improve property registration and foreclosure procedures by 2007. A final reason for the low level of mortgage lending is the relative importance of the National Housing Fund during the 1990s and, subsequently, the National Housing Saving Scheme. The latter, which was introduced in 1999, may have displaced mortgage lending in favour of cheaper subsidised loans or contract saving schemes. The scheme is operated through the existing banking network, with banks receiving a small fee to cover their operating costs. Overall, the scheme is not for profit and, together with the subsidies provided by the State, gives savers a very attractive return. The year, 2005, saw a large number of schemes maturing with savers able to convert their savings into housing loans.

As with other former communist countries, there is a very high level of home ownership following privatisation of the housing stock. In 1991, the rental sector accounted for around 31% of housing tenure compared to only 10% today. The private rented sector makes up just 3% of the housing market at present. Property prices in Slovenia are growing rapidly with a 12% rise in 2005. However, this is a much slower growth rate than experienced by other former communist countries. The reason is that property prices are already relatively high. In 2001 the median house-price-to-income ratio was 7. In addition the success of the Saving Scheme meant that money, which would otherwise have been spent on housing, was withdrawn from the market in the 2000-2003 period. This led to much slower house price inflation. Now that the money is being released from the schemes, there may be a 'catch-up' effect as demand for property increases.

In regards to the future, competition from commercial banks and the lower interest rate environment have led to a re-examination of the role of government in the housing sector. The focus for government is now on first time buyers and social housing, as well as in promoting measures to maintain new construction at a rate of 10,000 units per annum. It is also looking to reform mortgage laws and improve its land registries (including electronic registration). Lastly, it will look to improve its foreclosure laws, which should help to reduce the cost of mortgage lending and make it more easily accessible. A draft mortgage and housing finance law was submitted and adopted by the Government in November and is being considered by the Parliament.

FUNDING

Slovenia was one of the very few European Countries (along with Estonia) to not have legislation on covered bonds or MBS. However, in 2006, it introduced a new "Mortgage Bond and Municipal bond Act". Once the secondary legislation is approved, it will allow for a new funding source to be tapped. It is expected to have a positive impact on the maturation of the mortgage market and provide better terms for borrowers by further reducing the spread and lengthening maturities. Prior to this, mortgages had largely been funded by retail deposits, which represented a relatively expensive source of funding. In addition, they were almost entirely of short maturities, leading to mismatches with the longer term housing loans.

	EU average	Slovenia
GDP growth (EU 25)	1.6%	3.9%
Unemployment (EU 25)	8.7%	6.5%
Inflation (EU 25)	2.1%	2.5%
% owner occupied	65.0%	84.0%
Residential Mortgage loans as % GDP	47.5%	4.8%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.7
Total value of residential loans, € million, (EU 25)	5,138,835	1,301
Annual % house price growth (Euro zone)	7.7%	12.5%
Typical mortgage rate (Euro zone)	3.91%	6.2%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Slovenia=2002

SLOVAKIA

By Miroslava Mitkova, Hypocentrum A.S.

MACROECONOMIC OVERVIEW

The GDP growth rate of 5.4% in 2004 rose in 2005 to 6.1%. Overall, the macroeconomic performance of the Slovak Republic has improved and this trend is expected to continue. The GDP expansion of the past few years has not been accompanied by an adequate growth in employment. Compared to the EU-15 average, the Slovak Republic had a high rate of unemployment (16.3%) in 2005. This adverse situation is most evident in an extremely high level of long-term unemployment. The key reason for this is a mismatch between supply and demand in the labour market, reflecting demographic developments, a shortage of newly created jobs, and problems in the functioning of the labour market.

In 2005, the average monthly nominal wage increased by 9.2 % to 17 274 SKK. Real wages increased by 6.3 %. Due to a real wage increase of 6.3%, consumption grew by 7.2 %.

The decrease in inflation from an average level of 7.5 % in 2004 to 2.8 % in 2005 was strongly influenced by decreasing food prices and the appreciation of the national currency.

HOUSING AND MORTGAGE MARKETS

During the first 10 months of 2005 building construction increased by 16.4% to 98.12 billion SKK, of which domestic construction was 93.75 billion SKK. New housing development represented 79.5% of domestic building production. In 2005, housing starts amounted to 19,564: 16,576 were private apartments (domestic private ownership) and 2,988 were apartments in municipal ownership. The number of completed apartments in private ownership was 12,443 and the number of municipally owned apartments completed was 2,032. It is noteworthy that in 2005 the Slovak housing market recorded the highest increase in housing starts and housing completions within the last 15 years and 13 years, respectively.

In 2005, there were 10 mortgage banks. They approved loans for a total value of almost 67 billion SKK (gross lending). Net lending in 2005 was 59.27 billion SKK. The annual increase in concluded mortgage contracts was 16,802 for a total number of 75,905 contracts. The value of mortgage loans granted increased by 36% and the number of contracts by 28%.

From 1st January 2005, State support for mortgage loans was cancelled. This change was known in advance, thus it had no significant impact on the mortgage market. Banks made significant changes in the period from 08/2004 to mid 2005. In most cases, the changes led to a reduction of interest rates for new loans. The average variable interest rate dropped most significantly - from 6.18% to 5.0%. The average interest rate fixed for 5 years also decreased by approx. 1%. As for the LTV ratio, banks provided mortgage loans with 70 – 100% LTV ratios. Some banks introduced new services for clients – banking valuation of properties, which provided a saving to clients when having expert valuations conducted. Banks also made their mortgage approval process simpler and quicker.

In the mortgage market, variable and short-term fixed interest rates (for 1, 2 or 3 years) prevailed during 2005. In addition to these types, banks offered mortgages with interest rates fixed for an initial period of 4, 5, 10 or 15 years

FUNDING

The nominal value of mortgage bond issued was 45.58 billion SKK. In 2005, there were 61 new mortgage bond issues.

	EU average	Slovakia
GDP growth (EU 25)	1.6%	6.1%
Unemployment (EU 25)	8.7%	16.3%
Inflation (EU 25)	2.1%	2.8%
% owner occupied	65.0%	49.2%
Residential Mortgage loans as % GDP	47.5%	8.1%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.6
Total value of residential loans, € million, (EU 25)	5,138,835	3,078
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	4.7%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Slovakia=2001

FINLAND

by Ari Laine, Housing Fund of Finland

MACROECONOMIC OVERVIEW

The Finnish economy grew by 2.1% in comparison to 3.6% in 2004. Without the shutdowns in the forest industry, GDP growth would have reached 3%. Household consumption and housing investments were the major drivers of activity, and they are expected to remain buoyant in 2006. Average growth in 2006 is expected to reach 3.7%.

Employment continued to show strong growth, despite an unemployment rate of 8.4%. The employment rate increased and reached almost 68%. During 2005, a total of 50,000 new jobs were created. Most new jobs were created in the private service sector and in the construction industry. However, for the first time in a long time, an upturn in the number of industrial jobs took place. Central government finances will be in surplus in 2006 and will remain in surplus throughout the Government's term in office.

HOUSING AND MORTGAGE MARKETS

Construction activity remained strong during 2005. In recent years, the number of new housing units was quiet high in comparison to other European countries - more than 6 units per 1000 inhabitants. There were several major reasons for strong housing demand: (1) historically low levels of interest rates (2) high consumers' confidence in the future and propensity to invest (3) lower housing standards than in other Nordic countries, due to the late urbanisation process. In Finland urbanisation is still a current phenomenon.

Mortgage lending continued to increase in 2005. Mortgage loans outstanding increased by 16.7% and net lending by 42%. The strong mortgage market growth is reflected in the level of house price inflation. House price inflation was 7.1%, as in 2004. The prices of old flats rose by 8. %. High housing demand raised prices of old flats mainly in metropolitan areas and in other growth centres. However, in comparison to many EU countries, house price inflation was not exceptional and was in line with the house price growth rate registered in the Euro-zone (7.2%). Despite remarkable growth in mortgage debt, debt as a percentage of households' income amounted to only 80%. This figure is low compared to the record peak ratio reached at the end of the 80s. (In 1989 the ratio was 89%[30].) Moreover, the ratio is not exceptionally high even by international standards, as the average ratio for industrial countries is well above 100%.

The rise in household debt is a current issue in Finland. However, financial institutions stressed that households' housing loans have healthy LTV ratios and a survey by the Finnish Bankers' Association shows that 72% of loan holders have prepared for an eventual rise in the interest rates of housing loans[31]. Also, according to the Financial Stability Report of the Central Bank of Finland[32], the current level of domestic indebtedness does not seem to be alarming on the aggregate level. However, this does not rule out the possibility of individual households running debts that exceed their debt-servicing capacity.

30 There was a housing boom between 1987-1989
31 The bank barometer of the Finnish Bankers' Association (September 2005).
32 Financial Stability Report 2005, page 31.

	EU average	Finland
GDP growth (EU 25)	1.6%	2.1%
Unemployment (EU 25)	8.7%	8.4%
Inflation (EU 25)	2.1%	n/a
% owner occupied	65.0%	64.0%
Residential Mortgage loans as % GDP	47.5%	42.5%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	12.6
Total value of residential loans, € million, (EU 25)	5,138,835	65,946
Annual % house price growth (Euro zone)	7.7%	6.1%
Typical mortgage rate (Euro zone)	3.91%	3.0%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	2.3%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Finland=2005

SWEDEN

By Christian Nilsson, Swedish Bankers' Association

MACROECONOMIC OVERVIEW

The Swedish economy continued to strengthen during 2005 despite a weak beginning of the year, and the GDP grew by 2.7 %. A comparable high and stable growth in the world economy has had a positive impact on the Swedish economy and Swedish trade.

The growing Swedish economy has resulted in improved employment figures at the end of 2005.

The Swedish economy improved during 2005 and demand increased, but improved productivity and high cost pressures kept the inflation at very low levels. At the same time, the long-term interest rate fell and the Central Bank lowered the repo rate from 2% to 1.5%.

HOUSING AND MORTGAGE MARKETS

Housing starts and housing completions both increased by 13% during 2005 compared to the previous year. This growth rate is lower than last year's rate when housing starts and completion increased by 24% and 26% respectively. However, the supply of housing is increasing.

Housing transactions continued to rise for the fourth consecutive year and increased by 5.4% in 2005. The strong demand in the housing market is reflected in the increase in house prices of 9.6%. Building prices increased during 2005 by more than 3%, which is higher than the general inflation rate. Comparing the increase in house prices and building prices, the margins suggest that there will be a continued interest in constructing new houses if rising house prices persist. The rising house prices and comparably low interest rates during 2005 have increased the demand for mortgages further. Outstanding loans provided by mortgage institutions increased by 10.7% during 2005. Some of this is undoubtedly intended to finance general consumption, as well as house purchase.

Households have continued to increase their overall borrowing during 2005 and, as in previous years, this is mainly driven by borrowing from mortgage institutions. Rising house prices and low interest rates are some of the reasons for this. The Swedish Central Bank's assessment is, however, that household indebtedness is not a threat to financial stability.

The interest rate on mortgage loans decreased to historically low levels during 2005. However, at the end of 2005, interest rates started to rise slowly. The variable interest rate was 2.4% in the end of 2005 compared to 3% in 2004. The interest rate fixed between 1 and 5 years was 3.7% at the end of 2005 compared to 3.8% in 2004. The rising interest rate trend continues as the Central Bank has increased the repo rate four times in 2006 from 1.5% to 2.5%. It is expected that the Central Bank will continue to increase the repo rate in 2006 and 2007. There is still much interest in the housing market and interest rates are still relatively low. Most analysts expect that the rate of house price growth will slow as the interest rate continues to rise.

FUNDING

Covered bonds and MBS are used in the Swedish market for funding of initial fixed interest rate mortgages. The value of outstanding covered bonds at the end of 2005 was € 92 billions. MBS are also used as a funding instrument and the total issues in 2005 were € 1.7 billions.

A new mortgage bond act came into effect on 1st July 2004, which introduced directly collateralized bonds, the underlying assets consisting of mortgage loans and loans to central, regional or local governments located within the EEA. At present, no directly collateralised bonds have been issued, but some mortgage institutions are preparing for it in the near future.

	EU average	Sweden
GDP growth (EU 25)	1.6%	2.7%
Unemployment (EU 25)	8.7%	7.8%
Inflation (EU 25)	2.1%	0.8%
% owner occupied	65.0%	48.8%
Residential Mortgage loans as % GDP	47.5%	55.2%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	17.7
Total value of residential loans, € million, (EU 25)	5,138,835	159,025
Annual % house price growth (Euro zone)	7.7%	9.6%
Typical mortgage rate (Euro zone)	3.91%	2.4%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	46.4%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Sweden=2003

UNITED KINGDOM

By Bob Pannell, Council of Mortgage Lenders

MACROECONOMIC OVERVIEW

UK economic growth fell below its long-term trend rate between the middle of 2004 and the fourth quarter of 2005, but it has been strengthening since then and seems likely to touch 3% by the end of 2006. Latest figures for the first quarter of 2006 indicate that the annual rate of growth was 2.3%. Manufacturing output has revived recently, boosted by strong growth in exports on the back of buoyant global demand and a pick-up in activity in the Euro-area. The positive near-term outlook for world demand should assist some rebalancing of UK demand growth away from household consumption towards exports and business investment.

The strength of growth in world demand has been the major factor behind strong rises in energy and other commodity prices. Although UK consumer inflation has remained close to its 2% target to date and average earnings growth remains relatively subdued at 4% (the latter helped by large inward migration from Central Europe), there appears to have been a steep rise in inflation expectations. Reflecting the earlier period of sluggishness, the Bank of England lowered its repo rate by ¼% to 4½% in August 2005, but financial markets expect this to be reversed by the end of this year[33]. The economic backdrop remains broadly favourable and supportive for the housing market. Despite a modest increase in the unemployment rate, a record 28.9 million people are now in work, 1.6% more than a year ago, and labour market conditions remain firm.

HOUSING AND MORTGAGE MARKETS

The housing market has been unexpectedly strong during 2006. The number of transactions has picked up from the low levels experienced between mid-2004 and mid-2005, and house price growth has regained momentum. The period of weakness almost certainly reflected the impact of earlier increases in interest rates. Demand stabilised during the spring of 2005 after it became clear that interest rates had peaked and strengthened in the second half of 2005 as potential buyers became more confident that prices would not fall. In part, the higher level of demand reflects stronger buy-to-let investment. However, first-time buyers also appear to be finding ways of entering the market at current house price levels. More parents and relatives are helping with deposits and lenders continue to be innovative in developing flexible products to help first-time buyers.

Mortgage equity withdrawal has picked up over the past year. This may largely reflect the impact of rising prices on equity released by last-time sellers. However, it may also reflect an increased willingness on the part of homeowners to extract equity from their homes. Equity withdrawal was £12.5 billion during the first quarter of 2006, nearly double the figure of a year earlier

Housing market confidence and activity are closely associated with interest rate movements and expectations. The UK has experienced a rise in fixed-term rates this year and, with a small rise also expected in short-term interest rates during the second half, activity levels and house price growth seem likely to moderate in the second half of this year and into 2007. The momentum behind house price growth is expected to ease as demand moderates, slowing to be broadly in line with average earnings during 2007.

There has been a clear upturn in mortgage lending since late 2004, reflecting higher property sales and strong levels of remortgaging. Gross mortgage lending is likely to hit a new record of more than £300 billion in 2006. Remortgaging activity involving equity withdrawal appears to have held up well, in part due to switching between secured and unsecured lending. The value of mortgage debt outstanding exceeded £1,000 billion for the first time in May 2006, and is increasing at 11% year-on-year.

Mortgages that are three or more months in arrears have risen from the low point in 2004, but the number of cases in early arrears appears to have levelled off.

33 Rates increased to 4.75% in August 2006.

A modestly less favourable interest rate background will raise mortgage interest payments relative to income, and is likely to be associated with rising arrears and possessions. Possessions are likely to average about 15,000 a year over the next few years – still close to historically low levels.

FUNDING

Following the launch of the first UK covered bond by HBOS in 2003, the market has developed rapidly. But the regulatory environment for covered bonds has struggled to keep pace. In contrast to other European countries, the UK has no specific legislation, and issues are governed by contract law, which is why the term 'structured' covered bond is used to differentiate the UK product. UK covered bonds will not immediately qualify for the preferential risk weighting of 10% under the Capital Requirements Directive (CRD). This requires a covered bond to conform to the definition in the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, which in turn requires formal government recognition. The FSA had intended to make UK covered bonds compliant with UCITS through its own rules and the market had anticipated that this would take effect from the introduction of the CRD on 1 January 2007. However, the government has recently announced plans to pass secondary legislation instead. Consequently, a UCITS-compliant covered bond regime is unlikely until late 2007.

	EU average	U.K.
GDP growth (EU 25)	1.6%	1.8%
Unemployment (EU 25)	8.7%	4.7%
Inflation (EU 25)	2.1%	2.1%
% owner occupied	65.0%	71.0%
Residential Mortgage loans as % GDP	47.5%	80.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	23.6
Total value of residential loans, € million, (EU 25)	5,138,835	1,414,386
Annual % house price growth (Euro zone)	7.7%	5.6%
Typical mortgage rate (Euro zone)	3.91%	6.4%
Outstanding covered bonds as % of total residential lending outstanding in the EU	17.9%	1.8%

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. U.K.=2004

NON-EU COUNTRY REPORTS

NON-EU COUNTRY REPORTS

ALBANIA

By Doris Andoni, Housing Department,
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MACROECONOMIC OVERVIEW

In 2005 the population of Albania was 3,135,000 with a labour force of 1,086,000 and an unemployment rate of 14%. The real growth of GDP during 2005 was 5.5%, which was 1.2% lower than in 2004. The inflation rate was 2.37% and 0.5% lower than in 2004.

Due to the low inflation rate, the Albanian central bank cut the core interest rate by 0.25 percentage points (from 5.25 to 5.00 percent). It was expected that this move would not jeopardize the inflation target and the market position.

THE HOUSING AND MORTGAGE MARKETS

The real estate market has been one of the most booming markets of the last decade. This is due to the economic and political changes that occurred in the early 90s. It has been influenced predominantly by internal migration and supported heavily by the remittances from external migration. Due to a high rate of informality, discrepancies in the registration of transactions and properties, and lack of a well-organized system for data collection, it is difficult to estimate the exact number of dwellings provided each year.

During 2005 the provision of houses from the private market has been double that of the previous year. Based on INSTAT data [Quarterly Statistical Bulletin (1), (2), (3), (4), 2005], which refer to the number of building permits issued, the total number of dwellings provided during 2005 is 1644. According to estimates, this results in approx. 12,000 – 14,000 apartments.

The prices of apartments vary notably at the national and the local level. There are cities where the price of an apartment is 0.3 of the cost of construction (the cost of construction for 2005 was approx. 30,000 LEK/m2, as calculated by National Housing Agency), due to the loss of population as a result of migration. The highest prices for apartments are found in the main cities, of which the capital city of Tirana holds the record. Prices of apartments in Tirana have increased every year due to incoming flows of migration, difficult and lengthy procedures for building permits, un-resolved problems related to property restitution and registration, and reduced land availability for further construction within the formal city borders. The prices of apartments in Tirana during 2005 increased by 22.6% compared with 2004, reaching a level of 1200 – 1600 EURO/m2.

Given the large gap between the prices in the free market and the low incomes of the majority of the population, which make it difficult for them to afford purchasing a home, and the interest of the private sector in this, the government is focused on establishing a framework for partnership with the private sector builders and banks. The aim is to ensure that there is more affordable housing and loans for housing, while using the public money to assist the most vulnerable groups. A loan is being negotiated with the Council of Europe Development Bank for the provision of the first stock of social housing. At the same time, technical assistance is being sought from different donors and international agencies to undertake a thorough study of mortgage markets in Albania and of public-private partnership principles, and to construct pilot projects as examples of public-private partnerships.

The mortgage market in Albania is young in comparison to Western European countries. It started with the economic changes in the early '90s and has increased extensively each year –with new banks entering the market – and intensively – with each bank increasing its portfolio. In 2005, there were 16 banks operating in the primary mortgage markets, which are completely private. Out of the 16 banks, 5 – 6 are more involved in housing loans. Based on the statistical report of the Bank of Albania (March 2006), the amount of loans given to the private sector and individuals that resulted in the 4th quarter of 2005 was 111,329.3 million LEK (1EURO = 123 LEK); out of which 14.6% are real quarter of 2004. In relative terms, they have dropped by 1.49% in comparison to the total lending to the private sector and individuals.

Lending conditions for housing vary from one bank to another in terms of maturity and interest rate. The maximum loan to value ratio is established by the Bank of Albania at 70%. Almost all banks that operate in the mortgage market ask for a pledge on the house that will be bought or at least 130% of the housing value deposited as security for the loan. The loan maturity also varies, with a maximum period of 20 years. The interest rate follows the changes of the international market. However, in general terms it was between LIBOR $ + (3.25 – 5.5) for loans in USD and between LIBOR € + (4 – 6.7) for loans in EURO.

Interest rates for credit extended in USD and EURO reached approximately equal values. The average weighted rate of credit in USD was 8.32% in February 2005. The Euro interest rate was 8.35%.

	EU average	Albania
GDP growth (EU 25)	1.6%	5.5%
Unemployment (EU 25)	8.7%	14%
Inflation (EU 25)	2.1%	2.37%
% owner occupied	65.0%	n/a
Residential Mortgage loans as % GDP	47.5%	n/a
Residential Mortgage loans per capita, € 000s (EU25)	11.2	n/a
Total value of residential loans, € million, (EU 25)	5,138,835	n/a
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of total residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, INSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data.
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

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BULGARIA

MACROECONOMIC OVERVIEW

The Bulgarian economy grew by 5.5% in 2005. The major drivers for growth were strong individual consumption and investment in fixed capital. Household incomes were the major factors behind the increase in individual consumption. One major reason for the rise in household income was the rise in employment. Also positive was the change in the unemployment rate, which fell by 1.9% to 10.1% in 2005.

Investment in fixed capital recorded its highest growth rate at 19% since 2001. Foreign capital investments are a major source of investment project financing. The inflation rate in Bulgaria remained high in comparison to European standards and amounted to 5.0% in 2005. It, however, decreased from a level of 6.1% in 2004. The major contributors to inflation growth were food prices.

HOUSING AND MORTGAGE MARKETS

Home ownership in Bulgaria is very high at 96.7%, as restitution programs represented one of the first steps in restoring the private sector after communism. However, most housing is still of poor quality and housing construction has been very low. In 2004 and 2005, housing completions per 1000 inhabitants were respectively only 1.1 and 1.6. This is in line with the low level of completions in the new Member States.

Total residential lending outstanding amounted to € 1,006 million in 2005. It recorded a growth rate of 97%, which is one of the highest growth rates among the countries analysed in this report. Mortgage debt to- GDP rose by a factor of 4 over the past few years: It increased from approximately 0.5% in 2000 to 4.7% in 2005

The rapid expansion of credit over the past 3 years led also to an increase of non-performing loans. Due to competition, banks did become less conservative in underwriting mortgage loans. Third-party guarantees were once typically required. However, in recent years the use of this security has declined. Due to the remarkable growth of non-performing credits, the Bulgarian National Bank undertook in 2004 and 2005 a number of measures, such as requiring additional minimum reserves for more aggressive lenders, in order curb the risk to the banking system.

Loan maturities have been increasing during recent years. Terms, which were previously 5 to 10 years, have recently been extended to up to 25 years. LTV ratios are also relatively high and generally range from 60 to 80%.

As in most countries analysed, mortgage interest rates have dropped substantially over the past few years. Interest rates for loans in local currency have fallen from 16 % in 2001 to 9% in May 2006. (As a point of comparison, ten-year Government bonds yielded about 3.3 % in 2005 and 6.7 % in 2001).

FUNDING

Funding of mortgage loans is based largely on deposits, although mortgage bonds are being issued. As the markets are growing, this is changing and mortgage bonds are becoming more and more competitive in comparison to retail deposits.

	EU average	Bulgaria
GDP growth (EU 25)	1.6%	5.5%
Unemployment (EU 25)	8.7%	10.1%
Inflation (EU 25)	2.1%	5.0%
% owner occupied	65.0%	96.5%
Residential Mortgage loans as % GDP	47.5%	4.7%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.1
Total value of residential loans, € million, (EU 25)	5,138,835	1,006
Annual % house price growth (Euro zone)	7.7%	36.5%
Typical mortgage rate (Euro zone)	3.91%	6.9%
Outstanding covered bonds as % of total residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Bulgaria=2002
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

References:
National Bank of Bulgaria, Annual Report 2005
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CROATIA

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

HOUSING MARKET

In 2005, 13,818 building permits were issued (8.4% more than in 2004), which granted construction of 23,484 new apartments (15.4% more than in 2004). By type of construction, 78.5% of building permits were issued for new dwellings and 21.5% were for the reconstruction of existing housing. The greatest number of building permits was issued for the construction of two-room apartments (32% of total number of apartments). The city, in which the greatest number of building permits was issued, was Zagreb, the capital.

According to the announcements of the Croatian Central Bureau of Statistics, the prices of new apartments in 2005 were 0.7% lower than those in the previous year. Still, by all indications, these data do not represent the real situation in the market. Apart from the problem of the sample size, it is important to point out the two main shortcomings of these estimates. Firstly, the calculation of the average price per square meter also included the sold apartments constructed on the base of the government supported "Publicly Subsidized Residential Construction Program". While their share of the total number of newly built apartments in 2004 was rather modest, they increased to over 30% in 2005. Secondly, the Croatian Central Bureau of Statistics divides the total real estate market within the Republic of Croatia into only two regions - the city of Zagreb (1,158 sold apartments with an average price of 1,247 EUR) and all other regions (987 sold apartments with an average price of 1,152 EUR). This makes all further analyses of price trends of newly built apartments in Croatia impossible. Unofficial estimates of the average prices of new and old apartments are usually 20 or even 30 percent higher.

MORTGAGE MARKET

Despite the slow decrease in the importance of the banks, banks still dominate the Croatian financial system. If we examine only market oriented housing finance, the dominance of banks is even more evident. Banks' housing loans in 2005 made up almost 98% of all housing loans granted in Croatia. To be even more precise, banks approved around 1.1 billions EUR of new housing loans in 2005, the total outstanding amount of which increased to 3.8 billions EUR or to 36% of total loans granted to the household sector by the end of the analysed period. In comparison to 2004, it represents an increase of 28% (2.9 billions EUR in 2004 or 34% of the total of loans approved to the household sector). However, despite their significant increase, housing loans as a proportion of total loans to households are still exceptionally low in comparison to the proportion in developed financial systems as in the EU-15, the USA and other countries. The reasons for the significantly lower importance of housing loans in banking assets could be partially due to incomplete land-registers, the very long process of distress, and banks' preferences for relatively faster and larger gains from different loans (e.g. loans for non-specified purposes and consumer loans for retail purchases).

The data on average interest rates also indicate the profitability of specific types of loans to the household sector. During 2005, banks charged interest rates from 5.0% to 5.71% on housing loans, while they charged interest rates ranging from 8.1% to 8.51% on other long term loans and from 7.65% to 8.13% on various short term loans. Still, the continual decrease of housing loans interest rates during the past few years is encouraging. For example, at the beginning of 2002 they were on average 8.8%, but at the end of 2005 they were much more acceptable at 5%. During the same period, the repayment periods were also extended and the different types of housing loans that are offered have been partially expanded. At the moment, most banks in Croatia offer housing loans for periods of up to 30 years, in EUR or CHF, with the possibility of choosing their indexation, different types of insurance and collateral, specialized housing loans for younger people, furniture, etc.

Housing loans, as well as banks' total loan activity, are still almost completely financed by deposits (65.9% of total liabilities in 2005) among which the deposits from the household sector are prevalent (56.6%). Banks in Croatia still do not use the technique of fund raising by issuing mortgage bonds by using techniques of asset securitization, which are used in many EU countries. Funds collected by debt securities have only a symbolic importance (1.3% of banks' liabilities in 2005).

Housing loans from housing savings banks in Croatia account for the rest of granted housing loans - around 2%. Housing savings banks are specialized credit institutions for the collection of contract savings from the household sector with the goal of meeting the housing needs of citizens. They benefit from governmental financial support. Since 1998 they have been founded by banks. At the present time there are five of them on the market (four in 2004 and 2005). Despite a very significant growth of their balance sheet ratios during the last period, they still are very small financial institutions and have only symbolic importance in the housing finance. Moreover, housing loans form only a small part of their total asset - 9.8% in 2005 (7.5 in 2004) and the most important claims are still those to the central government. This is the result of prescribed rules on the minimum saving period (mostly 2 or 3 years) and also of savers' behaviour. A large number of savers do not or only partially exercise their right to the contracted amount of the housing loan after the saving period of 5 years. In fact, savers still have the right to the payment of governmental incentive funds and the associated interest rate, whether or not they take out a mortgage loan, if the saving period is longer than five years.

GOVERNMENT HOUSING POLICY

The government in Croatia has an important role in the system of housing construction and financing. Apart from incentives mentioned for housing saving schemes, government incentives are also provided through tax allowances for interest paid on housing loans at banks and housing savings banks (up to 1,622 EUR is recognized as tax relief in the taxation of annual income), tax relief on the maintenance of investments, tax relief on the payment of freely contracted rent and by exemption from tax on property transactions of 5% for first time buyers. The total amount of this relief in 2003 amounted to around 81 millions, to 104 millions in 2004 and to 102 millions EUR in 2005. The current governmental program of housing construction incentives is the "Publicly Subsidized Residential Construction Program", which has been in operation since December 2001. Another programme is the program to provide housing for the victims of the homeland war, which has existed since 1997. There are different types of government incentives also implemented under a few programs in which there is relief for a proportion of the interest paid on housing loans by government employees in several institutions and ministries.

HOUSING AND MORTGAGE MARKETS OUTLOOK

The dynamic growth of the housing fund in Croatia is still not adequate for the existing needs of the population. The most important shortcomings and problems of the existing housing system are still not resolved. They are evident in the system of market oriented housing construction financing, as well as in the national strategy that supports it.

The market is completely dominated by banks, which motivated by quick and considerable gains, do not pay attention to provide housing, as it is usual in developed countries. At the same time, housing savings banks along with government's incentives have only symbolic importance. There are no other intermediaries and specialists on the market yet. Moreover, an organized secondary mortgage market still does not exist and numerous contemporary financing techniques, such as asset securitization are not used. The announcement of the preparation of a law on securitization is encouraging, but preparation is still in the early phase, without any details of its practical use.

The results expected from government supported programs and for housing construction types have not been achieved because of several problems. The problems can be briefly summarized as follows:

> Poor financial infrastructure and in particular, the absence of a secondary mortgage market;

> The high costs of state intervention in the housing sector;

> The difficulties in getting local governments involved in housing programmes;

> Long term planning is difficult in view of the changing political environment;

> The effectiveness of government premiums for contract housing savings is questionable. If the saving period is longer than five years, savers have the right to receive subsidies and low interest rates, whether they take out a mortgage loan or not.

It is necessary to solve the problems and shortcomings mentioned above as soon as possible. It is essential to create institutional and other preconditions for an efficient system of housing construction and its financing, in order to meet the housing needs of the Croatian citizens.

	EU average	Croatia
GDP growth (EU 25)	1.6%	4.3%
Unemployment (EU 25)	8.7%	n/a
Inflation (EU 25)	2.1%	n/a
% owner occupied	65.0%	66.2%
Residential Mortgage loans as % GDP	47.5%	12.7%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.9
Total value of residential loans, € million, (EU 25)	5,138,835	3,803
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	5.0%
Outstanding covered bonds as % of total residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
- Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Croatia=1991
- Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

ICELAND

MACROECONOMIC OVERVIEW

2005 saw a strong growth in domestic demand with GDP growth estimated at around 5.5% for the year. This continues a trend of steady growth since the mid-1990s, which has made Iceland one of the richest countries in the world. Unemployment fell during the year to 1.5% of the workforce.

There have been major developments since then in the Icelandic economy with a currency devaluation occurring towards the start of 2006. International investors started to raise concerns about what they perceived to be imbalances, both internal and external, in Iceland's economy. It was felt that the high level of investment outside of Iceland funded by debt, combined with the high level of household borrowing domestically, was unsustainable. This resulted in a sharp correction to Iceland's exchange rate with a consequent surge in inflation. The exchange rate fell by almost 20% between January and April, 2006. Expectations for inflation have, therefore, risen with the central bank forecasting a peak inflation rate of 8% during 2006. The higher inflation is in part driven by the higher cost of imports (following the devaluation) on which Iceland is very dependent and also on the buoyant property market, which has been fuelled by a credit expansion.

The devaluation appears to have triggered a structural readjustment in the Icelandic economy that will mean higher interest rates in 2006 and possibly a tighter fiscal policy. However, it will go some way to cooling the rapid expansion of credit and reducing the gaping 16.5% of GDP current account deficit. The economy still benefits from high levels of productivity and it is envisaged that the economy will revert to the trend and to levels of growth in 2008 and beyond.

HOUSING AND MORTGAGE MARKETS

The housing finance market in Iceland has been dominated for many years by the Housing Financing Fund (HFF). It operates as a State Housing bank with an explicit guarantee from the Icelandic government. The fund has been the main provider of mortgage loans to homebuyers, accounting for more than 60% of lending to households at its peak. Since the opening up of the housing finance market, a large part of the portfolio has been transferred to the commercial sector and there has been an explosion in lending by the commercial banks. By the end of 2005, they had just over half of all lending to households, with HFF accounting for about a third. Alongside these two providers are pension funds, which are authorized to make mortgages, and insurers who have a small portfolio of loans. Statistics on the mortgage market are not reported by the Central bank or statistical authorities. Consequently, the figures included in this report cover lending to households by HFF, mortgage lending to households by pension funds and insurance companies and, lastly, lending to households by commercial and savings banks, which may include a small proportion of unsecured loans.

In 2004, Iceland's financial services were liberalised with HFF no longer having a monopoly on the provision of prime mortgages. Commercial banks, which had until then only been able to provide the higher LTV portion of lending, were now able to compete in this market. Although they did not have the funding advantage, which a government guarantee provides, mortgage rates did see a significant decline. This was, in part, attributed to the need to gain market share and become established in the newly opened sector, which was inevitably done at the cost of margins. Mortgage products were offered with little or no margin at all for the lenders, which explains the enthusiastic response from consumers and the rapid increase in household borrowing following market liberalisation.

The outlook for the mortgage sector and how it might be reformed in the years to come is still dominated by HFF. Although commercial banks are not present in the mortgage market, they still face difficult competitive conditions owing to HFF's state guarantee, which allows it to issue bonds in the capital markets at an advantageous rate that is not available to all. Two solutions have been put forward. The first is that HFF should become a wholesale lender in which role it would effectively be a refinancing vehicle, such as the US government sponsored enterprises. To some extent, this has already begun with HFF having purchased some loan portfolios from commercial and savings banks. The alternative solution that has recently been proposed by the OECD[34] is to effectively charge HFF for the value of its guarantee. This would create a level playing field and would then give government the freedom to design policies more specifically targeted to social objectives, possibly by the use of means targeted grants. It remains to be seen whether providing guarantees, charging for the guarantee and then introducing subsidies would be an effective way to create more transparency in the market.

The housing market has cooled down dramatically from the peak levels when market prices of residential housing in the Greater Reykjavik area increased on average by 35% between 2004 and 2005. These have slowed to 13% during the first half of 2006 and are likely to decline further as higher interest rates and slower growth begin to exerte their effect. The supply of new housing has also increased, adding to the deflationary effect. More land is coming on stream and housing investment is expected to remain high in 2006 and 2007, but will decline from 2008 onwards, according to Ministry of Finance forecasts. The number of existing dwellings reached 120,000 during 2005, with almost three times as many houses started during last year (4,700 starts) as in 2004 (1,300 starts) A final factor contributing to the slow down in lending is the fall in refinancing levels which has been brought on by rising interest rates.

The mortgage market has grown rapidly since 2004 with increases of 14% in 2004 and 25% in 2005. This was in large part due to the market liberalisation, which resulted in lower rates, but also to the booming economy and rapidly rising house prices. This has, to a large extent, already been reversed with rates rising from around 4.15% up to 4.9%, together with some tightening of credit quality standards (LTV levels). In addition, the commercial banks that provided much of the increase in credit have stepped back from the market in 2006 and provided very little new lending. The rates at which they were operating may have just been sustainable in a booming market, but in a cooling market with interest rates rising they clearly no longer feel that their product offering gives them an adequate level of return.

FUNDING

The funding of the Icelandic mortgage market has historically relied on HFF bonds. In the longer term, it appears increasingly likely that the role of these bonds will be extended as banks are allowed to use HFF as a refinancing vehicle. However, in the shorter term, given the recent fluctuations in Iceland's economy, HFF bonds trade at a premium to similar European securities. Therefore, it is unlikely that banks will refinance their entire mortgage portfolios in the near future. The majority of bonds and mortgages in Iceland tend to be indexed to inflation, which makes them particularly sensitive to macro-economic fluctuations.

The recent lending undertaken by commercial banks in 2004 and 2005 was largely funded by retail deposits, although some banks are also exploring securitisation and one bank has already entered the covered bond market. Kaupthing Bank, launched a structured USD 500 m issue at the beginning of 2006, and has announced a longer term programme worth ISK 200 bn (EUR 2.5bn). Clearly, it is competing in a market dominated by HFF, but the uncertainty of the latter's future may mean that investors are also widening their nets in looking for assets in the Icelandic market.

34 Economic Survey of Iceland, 2006, Policy Brief, OECD, July 2006

	EU average	Iceland
GDP growth (EU 25)	1.6%	5.5%
Unemployment (EU 25)	8.7%	1.5%
Inflation (EU 25)	2.1%	1.4%
% owner occupied	65.0%	83.0%
Residential Mortgage loans as % GDP	47.5%	102.1%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	44.22
Total value of residential loans, € million, (EU 25)	5,138,835	13,000
Annual % house price growth (Euro zone)	7.7%	28.5%
Typical mortgage rate (Euro zone)	3.91%	5.0%
Outstanding covered bonds as % of total residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Iceland=2005
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

HYPOSTAT 2005

MONTENEGRO

By Aleksandar Radulovic, Association of Brokers of Montenegro

MACROECONOMIC OVERVIEW

Montenegro is a small country in South East Europe. In the former Yugoslavia, Montenegro was the oldest constitutional country. Now, it is the youngest in Europe. The Montenegrin people voted for independence on 21st May 2006.

The transition process in Montenegro started with the adoption of the Deutsche Mark as the official currency at the end of 1999, and then the Euro in 2002. The main problems of the Montenegrin economy are the high unemployment rate, the high public expenditures and the grey economy. Official institutions state that, in addition to a more responsible fiscal policy, there has been a decline in the grey economy and the unemployment rate. These improvements are, however, not yet visible. The grey economy is very widespread in the construction sector and official data on construction works from building companies is not very attendable.

HOUSING AND MORTGAGE MARKETS

Although Montenegro has 62.000 housing units more than households (Census, 2003), there are still people who do not have adequate access to accommodation or social protection. Detailed market data is not available, but according to the Labour Union of Montenegro, the country needs 25.000 new dwellings. The poor quality of the housing stock is also a significant problem. Most dwellings are not very old, between 30 and 40 years in age, but they are not renovated. Housing investments are unevenly distributed throughout the Republic as diverse regional development interests directly influence the housing market. Podgorica and locations on the coast are very attractive, while in the North where the economy is stagnant, housing construction remains very low.

The price per square meter of an apartment varies according to the location, supply, demand and the quality of the materials. It ranges from €1,800 (in the coastal area and attractive locations in Podgorica) to € 500 in the northern part of the Republic and less attractive locations. In any case, a minimum of € 30.000 are needed for an average-sized apartment of 60 m². This is nearly impossible for an employee who has an average salary of €255 per month.

Illegal construction in Podgorica is very widespread. The major reasons are the large number of individuals who move to the capital and the impossibility of getting a loan from a bank. Thus, they solve their housing needs in an illegal way. In Podogorica there are 18,000 illegal construction units. In Nikšić, the second largest town in the Central part of Montenegro, there are 4,000 illegally constructed housing units. The Municipal government has started to legalise the existing housing units. The results achieved were poor, however, due to the lack of financial resources of the owners and the local government.

The mortgage market in Montenegro is still very small. Most individuals continue financing their house purchase with their savings. Housing loans were introduced only one year ago and in 2005 only one bank provided them. Outstanding mortgage debt amounted to 15 million Euro at the end of 2005 and mortgage debt to GDP was less than 1%. Housing loans, however, are becoming a competitive bank product and several foreign owned banks started to advertise mortgage loans in 2006. Due to increasing competition, bank interest rates of housing loans decreased from 12% to 7% and loan to value ratios rose. The typical loan to value ratio is 70%.

PRIVATIZATION AND GOVERNMENT INTERVENTION

The distribution of the housing stock during privatization led to significant social gaps, increased dissatisfaction and a number of court cases. For instance, State housing policy during 1993-2003 continued to be led by the socialist distribution criteria. In fact, resources for solving the housing problems of employees in the public sector were provided at State level and by detached local government units. The distribution criteria were: the number of family members, years of work, educational level, etc. Apartment distribution within the State organs, public and State enterprises, etc., was done on the basis of uneconomical criteria.

When privatization had been completed the State appeared to be absent and did not consider any programme related to social housing. The market was considered to be the only regulator, especially in the sector of new apartment construction. However, no consistent and strategic institutional framework was established for the availability of land for construction, incentives for housing investments or tax and other incentives. The consequences were: (1) a significant decrease in housing construction from 1991 onwards, in comparison to the previous period (2) Illegal construction.

In order to tackle housing affordability problems, the government launched a new housing loan subsidy program in April 2006. The main objective is to reduce banks' housing loan interest rates from 6.4% to 4%. The beneficiaries of housing loans are supposed to pay a 4% interest rate, with the government paying the remaining 2.4%. This agreement was signed by the government and 6 banks.

	EU average	Montenegro
GDP growth (EU 25)	1.6%	4.1%
Unemployment (EU 25)	8.7%	21.6%
Inflation (EU 25)	2.1%	1.8%
% owner occupied	65.0%	98%
Residential Mortgage loans as % GDP	47.5%	1.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.02
Total value of residential loans, € million, (EU 25)	5,138,835	15.0
Annual % house price growth (Euro zone)	7.7%	10%
Typical mortgage rate (Euro zone)	3.91%	7.8%
Outstanding covered bonds as % of total residential lending outstanding in Europe	17.6%	n/a

Source: EMF, ECB, Eurostat, Monstat, Central Bank of Montenegro, Government of Montenegro.
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Montenegro=2005
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

NORWAY

MACROECONOMIC OVERVIEW

In 2005, the GDP continued to grow at a noticeable rate, although the pace declined from 3.1% in 2004 to 2.3% in 2005. The Norwegian economy has been boosted for several years by high oil prices, which have especially contributed to improve the balance of trade.

As far as inflation is concerned, consumer prices rose in 2005. However, the inflation rate was at only 1.5%, which clearly shows that inflation is under control.

The status of the labour market is also satisfying, as the unemployment rate in 2005 was 4.7%. It rose slightly in comparison to the 2004 rate (4.4%), but still remained far below the EU25 level.

HOUSING AND MORTGAGE MARKETS

Since 2003, the housing market has seen strong activity, particularly supported by a solid growth in income and low interest rates. In 2005, house prices continued to rise at an important rate (8%). Over the past 10 years, house prices have risen significantly and the recent, strong rise in supply of new housing (the housing starts rose by almost 30,000 since 2004, while it was closer to 20,000 during the 10 previous years) has not been sufficient to counter the increase. However, if we take into account the growth of households' incomes, it appears that the rise in house prices over the last decade has been more moderate.

The largest part of the rise in house prices is due to the growth of mortgage loans. The mortgage loans' share of total households' borrowing was 75% in 2005, which represents an increase of 10 percentage points in comparison to that of the past ten years. However, despite mortgage loans in the households' debt structure represent the largest share, unlike the situation previously, the other loans' share of household credit has also increased markedly in 2005. According to a Statistics Norway & Norges Bank's study, the average debt of households has risen by 34% during the period from 1986 to 2003. Meanwhile, the number of households has increased by 25% and the share of indebted households grew by 8%. The significant rise in house prices explains, to a certain extent, a large part of the growth of debt. If the average debt increased for most age groups, it was particularly true for first-time homebuyers. The high level of homeownership (76.7% in 2001) also played a role in the high level of debt. In fact, the increased households' housing wealth (pushed up both by the rise in house prices and the recent high level of housing starts[35]) had an important impact on the increase in households' debt. Households made use of new loan products, which made the withdrawal of mortgage equity easier.

Future developments in house prices are uncertain. On the one hand, the growth of incomes combined with a decreasing unemployment rate will continue to foster house price growth. On the other hand, the expected rise in interest rates and the additional supply of new housing will certainly have an opposite effect. As regards the debt burden, it is expected that the debt will continue to grow at a more rapid pace than disposable income. This will lead to an estimated debt burden of 220%´in 2009 from 180% in 2005. However, the interest rate level is still very low. Moreover, even in a scenario with a strong debt increase accompanying a higher interest rate, the households' interest burden is expected to remain low in comparison to the level which prevailed during the 1980s.

FUNDING

The Norwegian Parliament has introduced in 2002 a Mortgage Act in order to facilitate the issuance of bonds covered by mortgage loans. The Act enables mortgage institutions to apply for authorisation to issue mortgage bonds. Following this evolution of the law, two major groups of savings banks (Terra Gruppen & Sparebank 1 Gruppen) settled this type of mortgage institutions. However, for the moment, no covered bonds have been issued because the 2002 Mortgage Act still holds uncertainties

35 The housing wealth is estimated through figures for the total housing stock measured in square metres and the average price per square metre.

(especially concerning the separation of the cover pool from the issuer bank in case of default of the bank, and the bankruptcy proceedings). As a consequence, it is necessary to clarify the Act before any covered bonds will be issued. Such a revision of the 2002 Mortgage Act is expected to be made in late 2006 or early 2007.

	EU average	Norway
GDP growth (EU 25)	1.6%	2.3%
Unemployment (EU 25)	8.7%	4.6%
Inflation (EU 25)	2.1%	1.5%
% owner occupied	65.0%	76.7%
Residential Mortgage loans as % GDP	47.5%	52.7%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	27.2
Total value of residential loans, € million, (EU 25)	5,138,835	125,260
Annual % house price growth (Euro zone)	7.7%	8.3%
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of total residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Norway=2001
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

References:
Eurostat, Norges Bank, Statistics Norway and EMF-ECBC

ROMANIA

By Ramona Oros, Domenia Credit

MACROECONOMIC OVERVIEW

The overall improvement in the leading macroeconomic indicators continued throughout the year 2005. GDP growth, uninterrupted for 6 years, reached 4.1%, driven by the construction and service industry, which contributed to 54.8% of the GDP growth. The inflation rate was 9.1%. It was slightly above the inflation interval of +/- 1% around the target of 7.5% set by the Central Bank of Romania. The unemployment rate increased slightly from 7.6% in 2004 to 7.7% in 2005. The budget deficit stood at 0.8% at the end of 2005.

HOUSING AND MORTGAGE MARKETS

The mortgage market started in 2003 and, at the end of 2005, commercial and residential mortgage loans outstanding amounted to € 2.2 billion of which € 1.4 billion were residential loans. Over the past two years, residential mortgage loans grew by 70% and total (residential and commercial) lending by 82%. 89% of residential mortgage lending continued to be Euro denominated and only 11% ROL denominated, as most income and real estate prices are hard-currency (€, $) linked. There is a noticeable downward trend in interest rates. In December, 2005 the average interest rate for EURO denominated long term credit[36] (above 5 years) granted to individuals was 9.5%, whereas for new credit it was 8.4%.

In 2005 the volume of residential mortgage lending as a percentage of the total volume of credit granted to individuals was 25%, while in the previous year it had been 28.4%. At the end of 2005, the ratio of residential mortgage debt to GDP was only 1.8%.

27,275 new dwellings were completed in 2005, which corresponds to an increase of 2,228 in comparison 2004. The number of building permits issued in 2005 was 43,542. The number of dwellings under construction was 89,658, while the number of housing starts stood at 39,688. Although in 1990 the average useful area of a finished dwelling was 64.53 m2, in 2004 it had risen to 110 m2. The new building permits issued in 2005 showed an average useful area of 146 m2.

There are no official data on the number or volume of real estate transactions, but according to estimates the volume of transactions amounted to €1 billion in 2005. As large projects for the construction of residential houses are only in their early stage, the old housing stock of apartments still accounts for the greatest share of residential real estate transactions.

Official data on house price indices does not exist. In spite of mixed opinions on house price developments, the latter continue to rise.

The affordability of a mortgage loan is even lower than it was last year, because of restrictive measures regarding foreign currency lending activity and lending activity in general, applied by the Romania National Bank (NBR).

Detailed figures on arrears and defaults for mortgage lending are not available. However, the latter are included in the statistics on arrears and defaults for total lending[37]. As of December 2005, the outstanding volume of arrears and doubtful credits as a proportion of total credit outstanding remained unchanged from 2004, at 0.3%.

FUNDING

As the primary mortgage market remains hard-currency-denominated (€, $) by 89%, most mortgage funding still comes from credit lines with international financial institutions (such as IFC, DEG, EBRD, FMO, etc), deposits and private financial institutions.

Efforts were made to develop a legal framework for the functioning of a secondary mortgage market by

36 Refers to total credits granted to individuals, not necessary mortgage
37 Refers to total credits granted to the non-governmental sector, not necessary mortgage loans

Law, Mortgage Banks Law and modification to the current Mortgage Law. The package of laws has been passed by the Senate and will be enforced in 2006.

	EU average	Romania
GDP growth (EU 25)	1.6%	4.1%
Unemployment (EU 25)	8.7%	7.7%
Inflation (EU 25)	2.1%	9.1%
% owner occupied	65.0%	97.2%
Residential Mortgage loans as % GDP	47.5%	1.8%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.1
Total value of residential loans, € million, (EU 25)	5,138,835	1,449
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of total residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Romania=2002
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

RUSSIA

MACROECONOMIC OVERVIEW

In 2005, Russia experienced strong GDP growth, slowing inflation, a decrease in the unemployment rate and an increasing current account surplus.

GDP growth was sustained at 6.4%, although it slowed down from 7.2% in 2004. Growth in economic activity was mainly due to the expansion in internal demand supported by a rise in real money incomes. Real consumer expenses grew by approximately 19% and their growth was accompanied by a sharp increase in bank credit to the household sector.

Inflation in Russia is still at two digit levels, far beyond inflation rates of Western countries, but it has been constantly declining during the past years. In 2001 inflation reached the lowest growth rate since 1991 (10.9%).

Growth in economic activity is also reflected in positive developments taking place in the labour market: The unemployment rate decreased from 8.3% in 2004 to 7.7%.

Russia is also benefiting from a large current account surplus, which is favoured by the global increase in energy prices. The share of oil, petroleum products and natural gas in total Russian exports reached an estimated 61% in 2005 (it was about 55% in 2003 and 2004). In addition, prices of the Russian export commodities, such as Ural crude, petroleum and natural gas, increased faster than import prices.

THE HOUSING AND MORTGAGE MARKETS

Russia started, as one in a number of former planned economies, the privatization of its housing market at the beginning of the 1990s. The fact that many individual tenants were allowed to buy their homes for little money led to a quick increase in the homeownership rate, from 32% in 1990 to around 70¨% in 2002. Despite privatization, housing remains of poor quality. The poor quality of the housing stock is due to the slow process of renovation and to poor maintenance. In fact, municipal authorities are in charge of managing and maintaining the housing stock due to the limited financial means of the new owners. However, due to the small budgets at their disposal, municipalities face the same constraints as do homeowners. In addition, low levels of activity in new construction do not allow a rapid improvement of the housing stock. In fact, investments in new construction and rising construction costs have often resulted in delays or in unfinished construction. The ratio of total unfinished dwellings to completed new dwellings was 10:1 in 2002[38]. Russia lags far behind Europe in the provision of housing to its population. In analysing the living area available per person, one person has 20 square meters in Russia against 50-60 square meters in Western countries[39].

The poor activity in the housing sector is, however, not reflected in the lending sector. While, before the 1998 financial crisis, retail residential lending was offered by no more than 20 Russian banks, mortgage lending at present is one of the fastest developing sectors of retail banking in Russia. In 2005, mortgage lending increased by 150%. The volume of the residential mortgage market was €5,072 million at the end of 2005. The rapid growth is explained mainly by the small size of the Russian mortgage market, which is about 0.01% of GDP.

There are 170 financial institutions that offer mortgage lending in Russia. Sberbank and Vneshtorgbank are the two market leaders and represent 70% of the market. Also, foreign players are increasing their presence in the emerging mortgage lending market. Some of the largest in terms of turnover are: Raffaisenbank (Austria), Bank Societe general Vostok and the leading French financial group, Societé Generale. Banks compete mainly by offering lower rates and a less formal decision-making process. Moreover, mortgage terms have become increasingly favourable during recent years. Loan

38 UNECE
39 The dwelling stock in Russia is measured in terms of square meters not number of dwellings.

maturities have increased from 1-3 years to 5-15 years, or reach even 20-27 years under certain regional programs. LTV ratios range from 60% up to 90%, and the interest rate is experiencing a marked decline. Interest rates on hard currency loans have decreased from 30 to 10-15 percent and from 42 to 15 -18 percent for rouble loans.

Along with commercial banks, the Federal Housing Mortgage Lending Agency (AHML) plays a significant role in the development of the Russian mortgage market. The AHML was established by the government in 1996 in order to create a secondary mortgage market and was modelled after the United States agencies, Fannie Mae and Freddie Mac. AHML is the major buyer of mortgages throughout the country. It buys mortgage loans in roubles from regional operators (regional agencies etc.), which, in turn, have acquired loans from banks. During 2006-2008, the AHML activity is expected to focus on refinancing means. The agency will stop buying loan portfolios from regional banks and will concentrate on the purchase of their long-term mortgage backed securities[40].

The sustained mortgage market growth is clearly reflected in the high house price inflation. Both, the primary and the secondary housing indices recorded high growth rates over the past few years. In 2005, however, growth in the average house price was the slowest since 2000. In the primary[41] market, house price inflation was 17% against 18% in 2004. In the secondary market, real estates price growth was 18% against 24% in 2004. The slowdown in house price growth was due to an imbalance between supply and demand for housing. Growth in supply for housing slowed from 12.6% in 2004 to 6.3% in 2005, as insolvent demand led many developers to scale back construction or to close down construction agencies. Despite slowing house price inflation, house prices in Russia remain high, especially in large cities. In Moscow, the house price per square meter is about $ 1,462 and increased by 172% since 2002[42].

FUNDING

Russia passed a law on mortgage backed securities in 2003 and the process of acceptance and implementation of the legislation is still ongoing. The mortgage backed securities market is expected to be launched by the end of 2006.

40 Mortgage backed securities are expected to be launched in 2006.
41 The primary market refers to new houses (also not completed), the secondary market to existing dwellings. The Source is Rosstat.
42 UNECE Discussion Paper, The Private Housing Market in Eastern Europe and the CIS, December 2005

	EU average	Russia
GDP growth (EU 25)	1.6%	6.4%
Unemployment (EU 25)	8.7%	7.7%
Inflation (EU 25)	2.1%	19%
% owner occupied	65.0%	63.8%
Residential Mortgage loans as % GDP	47.5%	0.0%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.0
Total value of residential loans, € million, (EU 25)	5,138,835	5,072
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, UNECE, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Russia=2003
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

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SERBIA

By Goran Milicevic, Faculty of Economics, University of Belgrade

MACROECONOMIC OVERVIEW

The economic transition in Serbia had a very poor start. After disintegration of the Former Republic of Yugoslavia, the war followed by economic sanctions and the rise of the «grey» and «black» market, the GDP was reduced to less than 40% of the 1990 level in just 3 years and the unemployment rate reached 26%. The series of wars ending with NATO's intervention didn't help either. Thus, when the Milosevic's regime was finally overthrown in late 2000, the GDP was only 1/3 of the 1990 level.

In 2000, the situation changed dramatically and an extension of legal economic flows to the former grey and black sectors of the economy, along with a net growth rate of about 7%, brought an astonishing leap in GDP from $9.4 billion in 2001 to over $24 billion (19.5 billion euros) in 2005. The unemployment rate kept rising until 2003 and stabilized at a level of 32%. The GDP per capita rose from 1,256$ to 3,250$ (2,610 euros), while average net (after tax) monthly wages went from a mere 100 DM (€50) to above € 200.

After the world record hyperinflation in 1993 at a rate of several hundred million percent a year, inflation was kept to a «mere» 100% for the rest of the 1990s and was reduced to 10-15% for the past few years. Therefore, loans in domestic currency are still at double digit interest rates.

HOUSING AND MORTGAGE MARKETS

The number of housing units is approximately 2.95 million, of which around 200,000 units are second homes and another 200,000 are temporarily or permanently abandoned. The remaining figure of 2.55 million units is slightly higher than the number of households. This means that there is no major housing shortage. Over 90% of the stock is owner-occupied. Public ownership amounts only to around 1% (from about 24% in 1992.) and officially around 5% (and probably much of the remaining «unknown» 4%) is used by the private rental sector. About 2/3 of the stock is less than 40 years old and needs only minor repairs and upgrading (mostly for thermal insulation and connection to the central heating grid). Moreover, only a fraction of these newly built units are recorded in the Land Register.

The annual number of dwellings constructed dropped by 75% to around 10,000 for most of the past decade, while housing starts dropped occasionally to less than 3.000 dwellings (meaning that the stock of unfinished units was halved from 66.000 to about 33.000). As these figures refer only to dwellings for which there were building permits, the number of new dwellings constructed is underestimated. A census of 2002 has shown that the actual number of all dwellings built was 2-3 times higher (around 30.000). During the past few years, the reported number of both housing completions and housing starts surpassed 1,000. This may be due either to a more accurate percentage of the reported dwellings for which there had been building permits or to a considerable boost in the construction sector. Unfortunately, only the next census will find a final answer to this question.

The number of transactions of newly built dwellings (in the primary market) is roughly equivalent to the number of transactions of completed dwellings. However, due to high transaction costs, the number of transactions of second hand dwellings (in the secondary market) is only half as large[43].

Prices are about € 1000 /m². However, they vary from an average of € 1,250 for Belgrade to about € 650 euros for the rest of the larger cities in the country. All prices have practically doubled during the conversion of the DEM to the EUR. Then, they began to slowly decline, particularly in the secondary housing market.

The large economic fluctuations of the past years were reflected in the banking system, which lost almost all credibility. The population's saving deposits of several billion in USD hard currency were seized by the state. A billion of DM deposits was taken away in the pyramidal schemes sponsored by

43 Except from a brief period in mid 1990s

the regime. Finally, there was the world record hyperinflation in 1993. Thus, saving deposits at the end of the former regime were negligible (a couple of dozen millions DM). A significant effort was needed in order to regain confidence and to build up deposits to the current €1.3 billion level.

In 2002, some leading foreign banks introduced residential mortgage loans schemes to a very limited degree. However, by the end of 2004, after the National Corporation for Housing Loan Insurance (NCHLI) was established, outstanding residential mortgage loans had almost reached € 100 million. Moreover, in 2005, more banks entered the market and the figure for residential loans outstanding surpassed € 300 million (approx. 1.5% of the GDP). There are slightly more than 12,000 loans. Almost 2,000 are insured by the NCHLI and around a quarter of these are sponsored by the government scheme for young couples. The system was created just few years ago. Thus, no remortgaging has occurred. However, remortgaging is expected soon, as interest rates have dropped considerably.

Due to a decrease in confidence between lender and borrower, since the mid 1990s all commercial loans that exceed a few thousands DM, use a mortgage on real estate as collateral. The amount of these loans outstanding reached € 3-3.5 billion, but only a fraction of them are long term loans for buying commercial real estate.

From a legal point of view, the mortgage was not an effective instrument, because the borrower was overprotected and foreclosure took too long. However, a new Mortgage Law that eases mortgage enforcement took effect earlier in 2005. It mainly protects lenders who are now eagerly satisfying a considerable demand for such loans. Thus, the biggest obstacle to further development of mortgage lending is the incomplete Land Register, which covers only around 50% of housing units. In particular, it represents an obstacle to the development of the secondary housing market, which has a potential of more than 100.000 transactions, totalling several billion Euros per year.

Despite these obstacles and other obstacles, such as high transaction costs, mortgage lending was fostered by a huge decline in interest rates - from around 10% at the end of 2004 to around 6% at the end of 2005. The decline in interest rates was due to competition, the creation of the NCHLI and the low interest rate loans for young couples that are sponsored by the government. The average maturity of mortgage loans increased from around 10 years in 2003 to 20 years in 2005. Moreover, at the present time, loans with 30 year maturity are widely supplied.

The Loan to Value ratio increased from 70% to 90% for government sponsored loans. However, problems may emerge from a too high Loan-to-Income ratio, which eats up to 50% of monthly income (not only of the borrower, but of the entire family, rather widely defined). Thus, loans were available only to families in the upper income brackets. Consequently, there were no arrears reported or mortgages enforced yet, although this is unlikely to continue for very long.

FUNDING

Mortgage loans are financed by domestic saving deposits and unspecified extra sources provided by foreign banks. The saving deposits amounted to € 1.3 billions at the end of 2005. The domestic financial market is very small and seems too weak to absorb mortgage bonds, while the entire portfolio of mortgage loans is still too small to attract foreign issuers of mortgage backed securities. However, due to the sustained market growth rate, this may change soon.

	EU average	Serbia
GDP growth (EU 25)	1.6%	4.6%
Unemployment (EU 25)	8.7%	n/a
Inflation (EU 25)	2.1%	15.4%
% owner occupied	65.0%	88.7%
Residential Mortgage loans as % GDP	47.5%	1.4%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	n/a
Total value of residential loans, € million, (EU 25)	5,138,835	307
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	6%
Outstanding covered bonds as % of residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks, IMF, UNECE, National Statistical Office
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Serbia=2002
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

SWITZERLAND

MACROECONOMIC OVERVIEW

Despite a faint improvement at the beginning of the year, real GDP finally grew by 1.9% in 2005, which represents a slight decrease by comparison to 2004 (2.1%). However, it is visibly higher than the average figure for the previous 5 years (1.2%) and just puts Switzerland's GDP over the average rate of the EU 25 (1.85%). It is worthwhile emphasising that Switzerland is one of the wealthiest countries. In 2005, the Swiss GDP per capita was 28% above that of the EU 25.

Unemployment remained nearly at the same level, decreasing marginally from 3.9% to 3.8% in 2005. Although this rate is high for Swiss standards, it is still far below the EU 25 average rate and contrasts strongly with the situation, which prevailed before 2002.

The inflation stayed stable in 2005, increasing slowly from 1.1% to 1.2%.

HOUSING AND MORTGAGE MARKETS

The Swiss market is characterised by one of the lowest homeownership rates in Europe (34.6% in 2000). This situation is the result of a combination of several factors. First and foremost, there are no incentive measures, such as tax benefits for owner-occupation, which could increase the pressure to change. Secondly, the rental market works pretty well. Finally, there is not really a tradition of starter homes, which could help to raise the homeownership rate.

At the end of 2005, mortgage lending outstanding in Switzerland amounted to €262,433 million, which puts the Swiss in fifth rank of the entire set of countries studied in this publication. Nevertheless, the growth rate barely reached 5.5%, which, in contrast, represents the second lowest growth rate after Germany (0.5%). It, however, showed a tiny improvement in comparison to the situation in 2004 (5.3%).

This explains the quite moderate rise in Swiss real estate prices (+1.2% in real term), at a level that is by now 30% below its peak of 1989. It is, however, worthwhile to notice that the price increases vary greatly depending on the canton considered, with the major increases occurring in western, southern and central Switzerland, with increases of 2.8%, 2.5% & 1.4%, respectively. In addition, the growth in the building price index decreased from 2.2% to 1.8% in 2005. The number of authorised permits and the number of housing completions grew by 3%. Housing starts grew by 9%, reaching 57,340, which is the highest level since 1994. This could be the sign of a future, more significant rise in real estate prices.

Mortgage loan risks remain at a low level. The low-risk mortgages' share of the total domestic mortgage claims still represents more than 90% for all bank categories. Nevertheless, it is remarkable that the distribution of mortgage loans between fixed-rate and variable-rate mortgage loans have changed, with the share of the fixed-rate mortgage loans increasing from 44% to 75% during the last four years.

FUNDING

In Switzerland, the law stated that the covered bonds ("Pfandbriefe") can only be issued by two types of institutions: the "Pfandbriefzentrale der Schweizerischen Kantonalbanken, the central covered bond issuing vehicle of the Swiss cantonal banks[44], and the "Pfandbriefbank Schweizerischer Hypothekarinstitute", the covered bond issuing vehicle for Swiss banks other than cantonal banks.

In 2005, the volume outstanding of covered bonds increased to €29,002 million. Even if this level is still below that which existed in 2003, it represents an increase relative to 2004. In addition, the issuance of covered bonds reached an amount of €3,720 million, which exceeds the issuance of 2003.

44 Cantonal banks are public sector banks, the majority-owned by the cantons (Swiss regions). Source: European Covered Bond Factbook.

	EU average	Switzerland
GDP growth (EU 25)	1.6%	1.9%
Unemployment (EU 25)	8.7%	3.8%
Inflation (EU 25)	2.1%	1.2%
% owner occupied	65.0%	34.6%
Residential Mortgage loans as % GDP	47.5%	88.9%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	35.4
Total value of residential loans, € million, (EU 25)	5,138,835	262,433
Annual % house price growth (Euro zone)	7.7%	6.2%
Typical mortgage rate (Euro zone)	3.91%	3.2%
Outstanding covered bonds as % of residential lending outstanding in Europe	17.6%	3.4%

Source: EMF, EUROSTAT, ECB, National Central Banks

Notes:

- Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data. Switzerland=2000
- Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

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TURKEY

By Cem Karakas and Onur Ozsan, Oyak Konut A.S

MACROECONOMIC OVERVIEW

Turkey's key economic indicators continued to improve in 2005. When one recalls the dismal environment of 2001 when the severest economic crisis in the country's history was experienced, this improvement is stunning. The GNP has increased to $360 million in 2005 from $146 million in 2001. GNP per capita at the end 2005 was $5,008. Gross domestic product per capita at current prices and current purchasing power parity is $5,016. The unemployment rate at the end 2005 stood at 10.3%.

As of May 2006, the average annual increase in the consumer price index (CPI) stood at 9.86 %. House prices increased by 10.66 %, which is above the CPI for the same period. This is mainly due to greater demand primarily fostered by rapidly decreasing interest rates and readily available home loan products.

HOUSING AND MORTGAGE MARKETS

Approximately 1,290,000 new units have been constructed between 2000 and 2005 in Turkey. The total number of housing units was 16.2 million as of 2000 and is assumed to be around 17.2 million as of year end 2005. This number, however, includes summer homes, second homes and squatters. Hence, when analyzed in conjunction with the demographic data, there appears to be a growing demand for quality housing units at affordable prices that will continue well into the future.

There is also a housing shortage of approximately 1.5 million units, according to information provided by the Housing Development Administration. Housing prices in major cities have increased by 57% between March 2005 and March 2006. During the same period, construction costs have increased by 10.1%, slightly more than the inflation rate. The urbanization phenomenon that started to accelerate during the 1950s has led to an accumulation of population in big cities, hampering a balanced urban distribution. At the end of 2000, 44 % of the urban population lives in cities of population more than one million, and Istanbul alone accounts for half of this amount.

The vast majority of house financing (more than 95%) in Turkey is under the scope of commercial banking institutions. The rest is covered by the Housing Development Administration, leasing companies, consumer finance companies and housing cooperatives. The Housing Development Administration (HDA) runs affordable housing programs by developing housing projects in cities that have housing shortages and selling them on a cost only basis at no profit - and sometimes with a subsidy. HDA's primary task is to provide housing for the lower and middle income classes with affordable payments. HDA is the only institution in Turkey, which can extend ARMs and DIMs despite the consumer protection law, in order to increase affordability of borrowers.

Home loans are a subset of consumer loans in general, which are extended by commercial banks. Falling inflation and stabilization of interest rates have boosted consumer confidence in borrowing instruments with longer terms and, hence, have encouraged banks to lend more aggressively with an expectation of continuing low inflation and declining interest rates. Commercial banks, which provide consumer loans, have extended loans to 9,209,824 consumers in 2005. This is 171% above that of the previous year. As of December 2005, the outstanding consumer loan balance is YTL 28.3 billion ($21 billion). The outstanding home loan balance as of December 2005, reached YTL 12.4 billion ($9.2 billion).

The new bill that aims to create a modern, institutional housing finance scheme in Turkey and which was mentioned in Hypostat 2004 was completed and submitted to the Parliament in 2005. It was expected to be in effect by Q3 2006. Given that inflation and interest rates are within the market's expectations, this new regulation is expected to eliminate certain obstacles towards the establishment of a robust mortgage system and to provide some tax benefits to borrowers, lenders and investors. The home loan market will have to meet certain standards set out in the framework for the new mortgage system. The size of the primary market is expected to increase rapidly and it is hoped that this will foster a robust secondary market. The new regulation will also enable new players to enter the primary and secondary mortgage markets.

FUNDING

Given that economic conditions have not been suitable for commercial entities to borrow from the domestic market by issuing securities, home loans, just like any other consumer loans have been largely funded by time deposits. Considering the relative short maturity of time deposits, banks are seeking new methods to decrease the huge maturity mismatch on their balance sheets. Since the bond market is dominated by state debt instruments with attractive interest rates, it is nearly impossible for other commercial entities to borrow from these markets. The other alternative is to securitize the home loan receivables. Unfortunately, this type of securitization is also crowded out by state debt instruments. Off-shore placement is also quite costly due to receivables being denominated mainly in local currency (exchange rate risk) and the country risk. Due to decreasing country risk and improving credit ratings, some Turkish banks have been utilizing mid-term syndicated loans to fund longer term home loans. Although, better than funding home loans with very short term time deposits, this kind of funding still is far from being able to minimize the maturity mismatch.

	EU average	Turkey
GDP growth (EU 25)	1.6%	8.4%
Unemployment (EU 25)	8.7%	10.3%
Inflation (EU 25)	2.1%	8.4%
% owner occupied	65.0%	68.3%
Residential Mortgage loans as % GDP	47.5%	2.5%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.1
Total value of residential loans, € million, (EU 25)	5,138,835	7,387
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	15.0%
Outstanding covered bonds as % of residential lending outstanding	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data. Turkey=2000
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

UKRAINE

By Oleg Kinyayev, Ukrainian National Mortgage Association

MACROECONOMIC OVERVIEW

After four years of sustained economic growth, in 2005 the Ukrainian economy experienced a slowdown. At the end of 2005, real GDP had grown only by 5.5 %.

Experts believe that the main reasons for the economic slowdown are:

> Decline in investment activity: In 2005, social policy was the main issue on the government's agenda. The minimum pension was raised to UAH 332.00. Also, the minimum wage experienced an increase. The rise in social spending, together with an adverse investment climate (privatization issues, cancellation of tax breaks in free economic zones and priority development areas), had a significant impact on investments in some industries.

> Adverse market conditions and increased competition in the world markets: world demand and prices for Ukrainian exports declined (metals – down by 24 percent), while prices for imports increased by 61%.

> Artificially over-estimated indicators for 2004.

The slower pace of economic growth was accompanied by higher inflation. The consumer price index rose from 9.0 % in December 2004 to 14.2% in December 2005. Despite the economic slowdown and increasing inflationary pressures, the country's banking sector remained stable.

Following the revaluation process initiated by the National Bank of Ukraine (NBU), the national currency strengthened. In 2005, the official USD/UAH exchange rate appreciated by 4.7 % and the EUR/UAH exchange rate by 13.6 %. On January 1st 2006, the official USD/UAH rate was UAH 505.00 for USD 100.00 and the official EUR/USD exchange rate was UAH 505.00 for EUR 100.00.

In 2005 the unemployment rate (according to the International Labour Organization) amounted to 7.2 % in comparison to 8.6% in 2004.

HOUSING AND MORTGAGE MARKETS

Lending to households grew strongly and the future outlook is very positive. Bank loans to individuals experienced a remarkable increase in 2005: They rose from a share of 16.7% at the beginning of 2005 to a share of 23.4 % at the beginning of 2006. There are two main drivers beyond this increase: (i) growth in personal income due to the rise in average wages and social payments; (ii) decline in average-weighted interest rates on loans to households. Interest rates on loans in national currency declined from 20.5 % to 20.1% and foreign currency loans (USD and EUR) from 15.3 % to 13.6 %

According to the State Statistics Committee of Ukraine, 7,815,900 sq. m of common residential area were placed into operation in 2005 – up by 4 percent from the 2004 figure. As of 1st January 2006, the housing stock (of all ownership forms) in Ukraine comprised 1.05 million houses with a total area in excess of 1.008 billion sq. m. The portion of state-owned housing stood at 356,000 houses with a total area of 209.3 million sq. m. On the average, there are 22 sq. m of common area per person in the Ukraine – up 1.06 times that of 2000.

House price inflation was extremely high: In Kiev, house prices increased by approximately 50 -55 %. The price of one-room apartments increased by an average of 40%. Prices of two-room apartments, three-room apartments, and four-room apartments increased by 37%, 35%, and 32%, respectively. Within the primary market, prices range from USD 1,750 to USD 2,500 per sq. m in the centre of Kiev and from USD 1,200 to USD 1,600 per sq. in other parts of the city. In 2005, the average price in the secondary market rose by 50 percent for one-room apartments, 52 percent for two-room apartments, 54.2 percent for three-room apartments, and 45.5 percent for four room apartments.

Outstanding loans secured on residential property by the end of 2005 amounted to UAH 10.6 billion and net mortgage loans to UAH 7.39 billion. Mortgage lending as a percentage of GDP rose from 1 % in 2004 to 2.5 %, while the proportion of loans for house purchase secured on residential property rose from 0.6% in 2004 to 1.6% in 2005.

Interest rates on loans for house purchase declined significantly. This had a positive impact on the growth rate of banks' mortgage loans portfolios. Interest rates on mortgage loans in national currency decreased by 3-4 %, while interest rates in hard currency decreased by 2.5-3 %. At the beginning of 2006, the median interest rate on UAH-denominated loans was 16-17 %. It was 12.5-13 % on USD-denominated loans and 11.5-12.5 % on EUR-denominated loans.

Housing loan maturities range from 5 to 20 years and loan to value (LTV) ratios range from 70 to 95%. However, more common LTV ratios vary between 70 and 85%. Some banks provide loans without a down payment against additional guarantees in the form of other liquid real estate, ownership rights and deposits.

The default rate on mortgage loans does not exceed 1%.

FUNDING

Retail deposits are the main funding source. In 2005 there was a significant decline in average-weighted interest rates paid by banks on deposits denominated in local currency (from 13.1 % to 10.2%). Banks fund mortgage lending also by issuing corporate bonds and by using credits lines from foreign financial institutions.

	EU average	Ukraine
GDP growth (EU 25)	1.6%	5.5%
Unemployment (EU 25)	8.7%	7.2%
Inflation (EU 25)	2.1%	14.2%
% owner occupied	65.0%	n/a%
Residential Mortgage loans as % GDP	47.5%	0.4%
Residential Mortgage loans per capita, € 000s (EU25)	11.2	0.0
Total value of residential loans, € million, (EU 25)	5,138,835	1,670
Annual % house price growth (Euro zone)	7.7%	n/a
Typical mortgage rate (Euro zone)	3.91%	n/a
Outstanding covered bonds as % of residential lending outstanding in Europe	17.6%	n/a

Source: EMF, EUROSTAT, ECB, National Central Banks, IMF
Notes:
• Typical mortgage rate Euro zone refers to the APRC (Source: ECB)
• EU owner occupation rate average derived from EMF calculations based on latest available data.
• Outstanding covered bonds as % of total residential lending outstanding in Europe: it includes also Switzerland

STATISTICAL TABLES

1. Residential mortgage debt to GDP Ratio %

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	23.8%	25.0%	26.5%	27.6%	27.8%	26.7%	27.8%	29.7%	30.4%	33.0%
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	2.0%	3.0%	4.2%	6.1%
Denmark	62.4%	70.7%	75.0%	76.2%	75.2%	78.9%	82.2%	86.7%	88.4%	94.0%
Germany	46.6%	49.4%	51.9%	55.6%	53.2%	53.1%	53.1%	53.5%	52.2%	51.7%
Estonia	n/a	n/a	3.7%	4.1%	4.8%	5.8%	7.9%	11.7%	16.6%	24.8%
Greece	4.7%	5.3%	6.3%	7.3%	9.0%	11.8%	14.8%	17.2%	20.2%	25.1%
Spain	17.6%	20.6%	23.9%	26.6%	29.9%	32.5%	35.9%	40.1%	45.9%	52.6%
France	19.7%	20.2%	20.0%	20.9%	21.2%	21.7%	22.6%	24.2%	26.1%	29.4%
Ireland	23.8%	24.0%	26.5%	28.9%	31.2%	32.7%	36.2%	42.7%	51.9%	61.7%
Italy	7.1%	7.1%	7.8%	9.0%	9.8%	9.9%	11.0%	13.0%	14.9%	17.2%
Cyprus	n/a	n/a	3.7%	5.4%	5.9%	6.4%	7.9%	10.0%	12.0%	16.0%
Latvia	n/a	n/a	n/a	0.7%	1.6%	2.4%	4.1%	7.6%	11.4%	19.6%
Lithuania	0.4%	0.6%	0.9%	1.4%	1.1%	1.4%	2.2%	4.1%	7.0%	11.0%
Luxembourg	21.2%	22.1%	23.3%	22.4%	25.0%	27.3%	27.7%	30.5%	32.5%	34.1%
Hungary	n/a	n/a	n/a	n/a	n/a	2.2%	4.6%	8.1%	9.4%	10.5%
Malta	n/a	n/a	n/a	7.9%	7.9%	17.7%	19.7%	23.9%	28.6%	33.8%
Netherlands	43.9%	49.3%	55.3%	60.8%	68.4%	73.2%	80.4%	84.5%	89.2%	97.1%
Austria	n/a	n/a	n/a	n/a	n/a	13.7%	16.3%	17.5%	20.3%	21.9%
Poland	1.6%	1.5%	1.5%	1.7%	2.1%	2.7%	3.4%	4.5%	4.7%	6.0%
Portugal	n/a	n/a	n/a	36.9%	41.5%	44.4%	47.9%	48.2%	49.7%	53.9%
Slovenia	n/a	n/a	n/a	0.3%	0.3%	0.4%	0.8%	1.1%	3.1%	4.8%
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	3.9%	4.8%	6.5%	8.1%
Finland	30.0%	29.3%	29.5%	30.8%	30.6%	31.8%	33.3%	35.5%	38.8%	42.5%
Sweden	50.9%	48.9%	44.5%	46.4%	45.3%	46.9%	48.0%	49.6%	51.6%	55.2%
UK	59.1%	55.2%	50.9%	54.6%	56.2%	59.3%	64.4%	70.0%	75.3%	80.0%
Bulgaria	n/a	n/a	n/a	0.4%	0.4%	0.5%	0.7%	1.2%	2.6%	4.7%
Croatia	n/a	n/a	n/a	5.2%	5.4%	5.7%	6.9%	8.6%	10.5%	12.7%
Iceland	65.3%	66.9%	67.4%	76.1%	83.6%	85.9%	88.0%	86.3%	88.8%	102.1%
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.0%
Norway	42.3%	38.0%	39.9%	41.9%	39.4%	42.4%	48.0%	52.5%	54.1%	52.7%
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.4%	1.8%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.0%	0.01%
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	0.0%	0.1%	0.5%	1.4%
Switzerland	67.1%	76.8%	77.9%	74.7%	74.3%	76.2%	78.3%	82.7%	86.1%	88.9%
Turkey	n/a	n/a	n/a	n/a	0.3%	0.2%	0.2%	0.4%	1.0%	2.5%
Ukraine	n/a	n/a	n/a	n/a	n/a	0.0%	0.1%	0.1%	0.1%	0.4%

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

Notes:
- n/a: figures not available
- Denmark: The figure for the Danish market is an estimate; the data provided by the Danish Mortgage Association represent lending by mortgage banks only, which account to 90% of the market.
- Spain: Data include only residential lending. However, data for commercial lending in Spain include loans to developers for residential lending. The data published by the Spanish Mortgage Association includes both, commercial and residential lending.
- Turkey: the exchange rate from 1999-2005 is from Central Bank of Turkey and refers to the last day of the year applying the new exchange rate to that period.
- Montenegro: The figure is an estimate.

2. Residential Mortgage Debt per Capita, 000s

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	5.09	5.41	5.92	6.44	6.84	6.75	7.22	7.86	8.43	9.42
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	0.15	0.24	0.36	0.59
Denmark	17.26	20.17	21.99	23.41	24.49	26.42	28.28	30.54	32.29	36.18
Germany	10.95	11.50	12.34	13.64	13.36	13.65	13.83	14.01	14.02	14.09
Estonia	n/a	n/a	0.13	0.16	0.21	0.28	0.44	0.70	1.11	1.94
Greece	0.43	0.53	0.63	0.79	1.03	1.43	1.94	2.43	3.08	4.10
Spain	2.19	2.64	3.24	3.89	4.71	5.47	6.41	7.53	9.08	11.05
France	4.22	4.37	4.52	4.87	5.20	5.50	5.91	6.46	7.22	8.32
Ireland	3.83	4.70	5.65	7.02	8.62	10.00	12.11	14.98	19.12	24.08
Italy	1.24	1.32	1.49	1.78	2.06	2.17	2.51	3.02	3.56	4.17
Cyprus	n/a	n/a	0.46	0.72	0.85	0.98	1.23	1.62	2.04	2.86
Latvia	n/a	n/a	n/a	0.02	0.06	0.09	0.17	0.33	0.55	1.09
Lithuania	0.01	0.01	0.02	0.04	0.04	0.05	0.10	0.19	0.37	0.66
Luxembourg	8.36	8.67	9.56	10.43	12.67	14.03	14.97	17.47	19.48	21.99
Hungary	n/a	n/a	n/a	n/a	n/a	0.12	0.31	0.59	0.75	0.91
Malta	n/a	n/a	n/a	0.77	0.89	1.96	2.22	2.60	3.09	3.77
Netherlands	9.3	10.8	12.7	14.9	18.0	20.5	23.2	24.9	26.8	29.9
Austria	n/a	n/a	n/a	n/a	n/a	3.69	4.46	4.91	5.91	6.56
Poland	0.05	0.05	0.06	0.07	0.10	0.15	0.18	0.23	0.25	0.38
Portugal	n/a	n/a	n/a	4.16	4.98	5.59	6.28	6.36	6.79	7.55
Slovenia	n/a	n/a	n/a	0.03	0.03	0.05	0.10	0.13	0.40	0.65
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	0.19	0.26	0.41	0.57
Finland	5.95	6.22	6.68	7.22	7.73	8.37	9.02	9.80	11.14	12.59
Sweden	12.38	12.17	11.20	12.47	13.42	13.06	13.93	14.96	16.21	17.65
UK	9.44	10.98	10.96	12.64	14.76	15.88	18.16	18.87	21.64	23.56
Bulgaria	n/a	n/a	n/a	0.01	0.01	0.01	0.02	0.03	0.07	0.13
Croatia	n/a	n/a	n/a	n/a	0.24	0.28	0.38	0.51	0.65	0.86
Iceland	14.02	16.19	18.13	22.47	27.99	26.51	28.49	28.57	32.16	44.22
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.02
Norway	12.12	11.98	12.08	13.98	15.95	17.85	21.47	22.73	24.24	27.19
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.04	0.07
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.01	0.04
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	0.00	0.00	0.01	n/a
Switzerland	22.68	25.12	26.42	26.07	27.67	29.58	31.65	32.32	33.77	35.39
Turkey	n/a	n/a	n/a	n/a	0.01	0.01	0.01	0.01	0.03	0.10
Ukraine	n/a	n/a	n/a	n/a	n/a	0.00	0.00	0.01	0.01	0.04

Source: European Mortgage Federation National Experts, National Central Banks, National Statistics Offices, Eurostat
Notes:
- n/a: figures not available
- Denmark: The figure for the Danish market is an estimate; the data provided by the Danish Mortgage Association represent lending by mortgage banks only, which account to 90% of the market.
- Turkey: the exchange rate from 1999-2004 is from Central Bank of Turkey and refers to the last day of the year applying the new exchange rate to that period.
- Montenegro: The figure is an estimate.

3. Covered Bonds as % GDP

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	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	5.1%
Denmark	82.2%	90.4%	95.8%	94.4%	95.5%	108.2%	109.7%	119.3%	126.6%	137.5%
Germany	10.1%	11.0%	11.6%	11.7%	12.0%	12.1%	12.2%	12.0%	11.3%	10.6%
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	1.4%	1.4%	1.4%	2.0%	1.8%	2.1%	3.5%	7.5%	11.5%	17.4%
France	n/a	n/a	n/a	2.6%	3.3%	2.9%	2.9%	1.3%	1.6%	1.9%
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.3%	2.6%
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.3%
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.1%	0.1%
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.9%	6.1%	5.8%
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4%
Austria	2.6%	2.7%	2.6%	2.5%	2.2%	2.0%	1.6%	1.4%	1.3%	1.4%
Poland	n/a	n/a	n/a	n/a	n/a	n/a	0.0%	0.1%	0.1%	0.2%
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	0.0%	0.0%	0.0%	0.2%	1.0%
Sweden	41.8%	37.1%	36.0%	33.8%	28.6%	26.4%	27.4%	30.3%	28.9%	25.6%
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.3%	0.9%	1.4%
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	6.7%	6.3%	6.9%	7.1%	8.7%	9.6%	9.8%	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	10.5%	10.9%	10.6%	9.9%	9.8%
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

4. Owner Occupation rate, %

	Latest data available	Owner occupation rate
Belgium	2001	68.0%
Czech Republic	2001	46.8%
Denmark	2004	52.0%
Germany	2002	43.2%
Estonia	2002	85.2%
Greece	2004	74.3%
Spain	2004	83.0%
France	2002	56.2%
Ireland	2004	77.0%
Italy	2002	80.0%
Cyprus	2001	68.3%
Latvia	2005	86.0%
Lithuania	2004	97.9%
Luxembourg	2002	66.6%
Hungary	2003	92.2%
Malta	2000	74.1%
Netherlands	2002	54.2%
Austria	2003	56.8%
Poland	2004	75.0%
Portugal	2003	75.0%
Slovenia	2003	84.0%
Slovakia	2001	49.2%
Finland	2005	64.0%
Sweden	2003	48.8%
UK	2004	71.0%
EU 25	/	65.0%
Bulgaria	2002	96.5%
Croatia	1991	66.2%
Iceland	2005	83.0%
Montenegro	2005	98.0%
Norway	2001	76.7%
Romania	2002	97.2%
Russia	2003	63.8%
Serbia	2002	88.7%
Switzerland	2000	34.6%
Turkey	2000	68.3%
Ukraine	n/a	n/a

Source: European Mortgage Federation, National Statistics Offices
Notes:
- n/a: figures not available
- Luxembourg: households only
- Malta: households only
- The EU 25 average has been weighted with the total dwelling stock

5. Total dwelling stock

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	n/a	n/a	4,581,738	4,624,970	4,659,202	4,711,435	4,743,974	4,782,060	4,819,612	4,858,339
Czech Republic	n/a	n/a	n/a	n/a	n/a	4,366,293	4,393,584	4,420,711	4,452,979	4,485,842
Denmark	2,467,000	2,479,000	2,495,000	2,513,000	2,526,000	2,541,000	2,554,000	2,572,000	2,592,000	2,620,885
Germany	35,789,000	37,050,000	37,529,000	37,984,000	38,384,000	38,682,000	38,925,000	39,141,000	39,367,000	39,570,000
Estonia	618,800	619,500	620,400	621,200	621,900	622,500	623,600	626,100	629,000	633,100
Greece	5,045,000	5,116,000	5,187,000	5,258,000	5,329,000	5,476,162	n/a	n/a	n/a	n/a
Spain	17,945,000	18,210,000	18,475,000	18,775,000	19,125,000	21,033,759	24,551,426	22,058,922	22,622,968	23,209,842
France	28,000,000	28,267,000	28,726,000	28,794,000	29,076,000	29,358,000	29,638,000	29,926,000	n/a	n/a
Ireland	1,115,000	1,144,000	1,173,000	1,201,000	1,230,000	1,259,000	1,288,000	1,554,000	1,630,900	1,711,857
Italy	26,356,000	26,406,000	26,451,000	26,498,000	26,548,000	26,526,000	26,649,000	26,700,000	n/a	n/a
Cyprus	261,451	268,353	275,425	281,504	288,071	292,934	299,449	305,411	314,057	n/a
Latvia	n/a	n/a	n/a	n/a	796,000	877,000	958,000	967,000	993,000	986,600
Lithuania	1,269,600	1,277,600	1,306,000	1,324,000	1,309,300	1,291,700	1,295,000	1,293,029	1,300,038	n/a
Luxembourg	112,698	114,082	115,465	116,849	118,232	119,616	121,000	122,383	123,767	125,150
Hungary	3,989,000	4,005,000	4,021,000	4,038,000	4,076,800	4,070,000	4,104,000	4,134,000	4,172,787	4,209,472
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	6,358,000	6,441,000	6,522,000	6,590,000	6,651,000	6,710,000	6,764,000	6,809,581	6,861,877	6,858,719
Austria	3,300,000	3,370,000	3,427,800	3,413,000	3,270,000	3,773,000	4,000,000	4,200,000	n/a	n/a
Poland	11,547,000	11,613,000	11,729,000	11,787,000	11,845,000	11,946,000	11,763,000	12,596,000	12,758,000	12,872,060
Portugal	4,664,000	4,760,000	4,857,000	4,953,000	5,050,000	5,052,000	5,053,000	5,055,000	5,463,000	5,500,000
Slovenia	684,146	690,146	696,749	740,100	746,700	753,200	784,912	791,268	797,981	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	1,884,846	n/a	n/a	n/a	n/a
Finland	2,391,000	2,416,000	2,449,000	2,478,000	2,512,000	2,544,000	2,574,000	2,603,000	2,635,000	2,669,177
Sweden	4,249,000	4,260,000	4,271,000	4,283,000	4,294,000	4,308,000	4,329,000	4,351,000	4,380,000	4,404,000
UK	24,529,000	24,721,000	24,913,000	25,098,000	25,283,000	25,478,000	25,599,000	25,774,000	25,953,000	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	3,352,225	3,524,773	3,697,322	3,704,798	3,715,890
Croatia	n/a	n/a	n/a	n/a	n/a	1,877,126	n/a	n/a	2,561,000	n/a
Iceland	n/a	n/a	n/a	n/a	103,230	105,276	107,912	107,912	110,687	120,000
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	1,866,009	1,885,117	1,904,225	1,923,333	1,942,440	1,961,548	1,982,404	2,002,930	2,025,739	2,054,592
Romania	n/a	n/a	n/a	n/a	n/a	n/a	8,107,114	8,152,400	8,176,500	8,201,508
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	2,965,516	2,976,229	2,990,100	3,006,488
Switzerland	3,434,119	3,472,355	3,507,522	3,542,171	3,569,181	3,604,341	3,638,187	3,671,892	3,709,857	3,748,920
Turkey	n/a	n/a	n/a	n/a	16,235,830	n/a	n/a	n/a	n/a	n/a
Ukraine	18,565,000	18,784,000	18,858,000	18,889,500	18,921,000	18,960,000	19,023,000	19,049,000	19,075,000	19,150,000

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

6. Housing Starts

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	45,121	47,460	40,564	41,670	41,087	42,047	39,374	41,134	46,193	51,068
Czech Republic	22,680	33,152	35,027	32,900	32,377	28,983	33,606	36,496	39,037	40,381
Denmark	17,558	17,594	18,126	18,385	16,023	20,781	22,957	25,968	22,495	26,171
Germany	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	286,800	322,700	407,380	510,767	533,700	523,747	543,060	622,185	n/a	n/a
France	264,000	264,300	285,000	317,000	309,500	303,000	302,900	322,600	363,400	410,200
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	77,691	77,709
Italy	172,072	155,626	150,421	162,034	177,615	169,573	171,269	174,352	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	95,300	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	95,817	98,002	85,871	83,400	80,100	74,700	n/a	n/a	n/a	n/a
Austria	55,000	54,000	48,000	46,000	39,000	37,000	36,450	37,000	n/a	n/a
Poland	n/a	n/a	91,000	90,000	125,000	114,000	77,000	82,000	97,000	102,038
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	5,416	5,634	5,925	7,386	5,087	5,816	4,863	7,141	6,303	n/a
Slovakia	6,443	12,844	16,857	11,168	9,884	12,128	14,607	14,065	16,586	19,796
Finland	23,564	29,804	31,597	34,590	32,309	27,625	28,154	31,377	32,380	34,275
Sweden	12,800	12,000	12,700	14,600	16,900	19,500	19,200	22,220	27,000	31,500
UK	194,395	198,056	185,499	191,966	185,513	194,841	195,214	211,605	228,091	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	1,279	1,165	1,016	1,266	1,643	1,811	2,360	2,688	2,751	4,400
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	18,743	21,259	19,646	20,492	22,536	24,191	22,216	22,263	29,399	30,706
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	39,688
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	9,975	8,789	12,739	10,406	14,560	17,000
Switzerland	45,028	39,426	39,880	38,741	39,025	40,643	36,157	45,048	52,652	57,340
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

7. Housing Completions

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	n/a	n/a	n/a	n/a	40,253	38,255	36,386	n/a	n/a	n/a
Czech Republic	14,482	16,757	22,183	23,734	25,207	24,759	27,291	27,127	32,268	32,863
Denmark	14,239	17,725	18,374	17,349	16,385	17,249	18,635	23,726	25,958	27,152
Germany	560,613	570,596	500,718	472,805	423,062	326,197	289,601	268,096	278,019	238,977
Estonia	935	1,003	882	785	720	619	1,135	2,435	3,105	3,865
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	253,377	272,333	275,596	321,177	366,775	365,660	426,738	459,135	496,785	524,479
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	33,725	38,842	42,349	46,512	49,812	52,602	57,695	68,819	76,954	80,957
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	6,998	6,827	6,207	5,900	4,804	6,549	5,886	8,419	10,759	n/a
Latvia	1,483	1,480	1,351	1,063	899	800	794	828	2,821	3,807
Lithuania	5,624	5,562	4,176	4,364	4,463	3,785	4,562	4,628	6,804	5,900
Luxembourg	2,242	2,277	2,572	3,067	1,671	2,342	2,475	n/a	n/a	n/a
Hungary	28,200	n/a	n/a	19,287	21,583	28,054	31,511	35,543	43,913	41,084
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	88,934	92,315	90,516	78,625	70,650	73,200	66,704	59,629	65,314	67,016
Austria	54,000	53,000	57,500	59,400	53,800	45,850	41,914	n/a	n/a	n/a
Poland	62,000	74,000	80,000	82,000	87,800	106,105	97,595	162,000	108,123	114,060
Portugal	72,305	78,403	84,520	105,348	107,887	102,904	50,238	34,839	66,505	59,412
Slovenia	6,714	6,615	6,955	5,446	6,751	7,986	7,778	6,502	6,073	n/a
Slovakia	6,257	7,172	8,234	10,745	12,931	10,321	14,213	13,980	12,592	14,863
Finland	20,837	26,854	29,842	28,939	32,740	30,592	27,171	28,101	30,662	34,177
Sweden	13,100	13,000	11,500	11,700	13,000	15,400	19,900	20,000	25,300	23,400
UK	185,626	190,709	176,640	184,656	176,451	174,989	183,609	189,743	202,747	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,267	12,059
Croatia	12,910	12,854	12,863	12,522	17,487	12,862	18,047	n/a	n/a	n/a
Iceland	1,620	1,369	1,427	1,381	1,258	1,711	2,140	2,311	2,355	3,100
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	17,905	18,659	20,659	19,892	18,873	22,147	20,856	20,526	22,809	28,853
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	29,125	30,127	32,868
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	10,372	10,496	10,713	13,871	16,388	19,500
Switzerland	41,988	35,961	33,734	33,108	32,214	28,873	28,644	32,096	36,935	37,958
Turkey	n/a	n/a	n/a	n/a	90,849	86,155	65,180	57,542	39,540	61,091
Ukraine	262,000	219,000	74,000	n/a	63,000	39,000	63,000	26,000	26,000	75,900

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

8. Building Permits

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	48,524	50,194	37,893	45,726	42,921	41,284	43,149	45,032	52,204	59,269
Czech Republic	20,202	30,819	36,874	47,035	45,100	45,279	45,961	51,948	51,464	47,974
Denmark	18,221	17,947	18,747	18,914	16,960	20,784	24,235	27,101	25,135	32,258
Germany	576,378	530,263	477,707	437,584	350,549	291,084	274,120	296,854	268,123	240,468
Estonia	995	1,334	1,133	988	1,076	1,430	3,156	3,419	9,447	9,166
Greece	68,093	69,867	71,790	66,327	68,580	75,757	82,648	81,978	80,842	95,032
Spain	282,450	337,730	429,820	515,493	535,668	499,605	524,182	636,332	687,051	729,652
France	301,600	299,400	375,100	340,800	358,800	356,200	350,900	385,300	460,800	511,700
Ireland	12,016	13,729	16,719	23,595	26,332	23,613	19,728	20,949	27,512	n/a
Italy	38,855	34,910	31,530	31,980	35,548	n/a	n/a	n/a	n/a	n/a
Cyprus	7,156	6,614	6,558	6,429	6,096	6,499	6,856	7,548	8,252	9,098
Latvia	n/a	n/a	n/a	n/a	n/a	2,256	2,838	2,277	4,077	6,003
Lithuania	n/a	n/a	n/a	n/a	2,038	2,053	2,415	2,989	4,155	5,500
Luxembourg	2,797	3,411	3,215	3,739	3,411	2,846	2,956	3,364	3,919	4,692
Hungary	30,500	n/a	n/a	30,577	44,709	47,867	48,762	59,241	57,459	51,490
Malta	3,351	3,411	3,004	2,273	2,369	4,180	5,481	n/a	n/a	n/a
Netherlands	102,119	101,501	87,673	84,201	78,563	60,000	67,183	72,454	76,180	83,273
Austria	65,358	56,925	50,789	45,459	41,460	40,229	39,174	38,119	n/a	n/a
Poland	70,000	62,000	78,000	106,000	70,000	81,000	39,000	61,000	105,831	115,862
Portugal	40,581	44,200	47,998	52,004	49,673	47,647	47,194	43,095	79,236	73,112
Slovenia	n/a	n/a	n/a	6,915	6,100	5,567	5,249	5,660	5,541	5,839
Slovakia	6,443	12,844	16,857	11,168	9,884	12,128	14,607	14,065	16,586	19,796
Finland	25,708	32,750	33,947	39,045	36,939	30,162	31,235	35,923	35,046	37,135
Sweden	11,800	12,500	13,800	15,300	18,500	22,000	18,700	25,200	26,200	32,700
UK	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
Croatia	n/a	n/a	n/a	n/a	n/a	18,088	19,549	21,245	20,358	23,484
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	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
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	43,542
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	36,812	33,284	29,112	26,427	27,909	25,190	26,715	29,023	30,923	31,928
Turkey	n/a	n/a	n/a	n/a	79,140	77,430	47,242	53,843	72,005	106,664
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

9. Number of Transactions

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	102,444	108,544	107,714	114,577	108,073	110,973	116,142	119,935	120,664	118,443
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	77,455	78,068	76,438	70,622	71,290	67,953	67,982	70,568	79,542	83,381
Germany	633,000	569,000	623,000	567,000	483,000	498,000	500,000	492,000	434,000	424,000
Estonia	23,023	28,319	24,036	25,896	28,494	30,700	28,622	33,901	35,744	47,280
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
France	734,300	701,000	779,900	862,600	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	61,006	64,652	68,925	78,572	80,856	69,062	93,136	97,888	104,305	120,037
Italy	483,782	523,646	576,340	639,617	688,284	661,379	753,578	807,157	804,126	833,350
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	22,473	31,647	40,524	51,306	63,600	68,700
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	4,115	4,341	4,350	4,734	4,613	4,791	5,170	5,058	4,908	n/a
Hungary	n/a	n/a	n/a	n/a	295,900	240,000	353,000	298,363	261,010	171,136
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	259,000	281,000	280,000	292,000	269,000	265,000	269,000	260,000	na	n/a
Austria	n/a	n/a	n/a	n/a	n/a	2,027	3,612	5,095	4,973	4,657
Poland	294,000	321,000	293,000	321,000	270,000	262,000	243,000	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
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	83,305	81,400	90,467	93,736	68,540	68,757	68,112	71,374	73,939	81,208
Sweden	46,600	54,700	48,600	56,900	51,000	50,700	51,600	54,300	56,200	58,200
UK	1,242,000	1,440,000	1,347,000	1,470,000	1,431,000	1,457,000	1,586,000	1,344,000	1,785,000	1,529,000
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	114,448	120,418	112,658	119,025	125,177	130,383	133,149	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12,000
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	18,589	10,586	58,615	2,911	10,915	25,999	100,449	242,582
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Central Banks, National Statistics Offices
Notes:
- n/a: figures not available
- Belgium: transactions on second hand dwellings only
- /Denmark: excludes self build
- France: new apartments as principal and secondary residence or rental
- 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

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	5.9%	4.9%	6.8%	8.7%	7.1%	6.4%	8.2%	6.6%	10.3%	16.3%
Czech Republic	n/a	n/a	n/a	7.3%	14.4%	6.9%	27.5%	7.0%	0.1%	n/a
Denmark	11.0%	11.0%	10.6%	8.3%	7.2%	7.9%	5.3%	5.2%	11.7%	17.0%
Germany	-1.6%	-0.8%	0.0%	0.0%	0.8%	0.0%	-1.6%	-0.8%	-0.8%	-1.7%
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	42.1%
Greece	10.4%	9.6%	14.4%	8.8%	10.5%	14.6%	13.0%	5.7%	5.2%	10.3%
Spain	1.3%	2.2%	6.8%	12.3%	14.9%	11.8%	18.1%	17.6%	17.5%	12.8%
France	1.0%	2.0%	2.9%	7.5%	7.9%	8.1%	9.0%	11.5%	17.6%	14.7%
Ireland	13.3%	17.6%	28.8%	20.4%	15.3%	8.0%	3.6%	14.1%	11.2%	10.6%
Italy	-4.2%	-3.8%	2.0%	6.7%	8.6%	7.9%	10.0%	10.7%	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	14.0%	17.5%	4.9%	48.6%
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	3.7%	4.0%	5.2%	6.5%	6.5%	10.3%	9.9%	12.5%	13.7%	n/a
Hungary	n/a	n/a	7.8%	30.9%	28.4%	8.6%	-1.1%	n/a	n/a	n/a
Malta	8.8%	8.5%	4.9%	3.2%	8.4%	5.9%	7.3%	10.2%	16.9%	10.4%
Netherlands	11.7%	12.3%	11.7%	16.2%	16.5%	11.2%	8.5%	5.0%	4.3%	4.8%
Austria	n/a	n/a	n/a	n/a	n/a	3.5%	-0.2%	0.4%	-2.8%	4.9%
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	2.2%	4.4%	5.8%	8.6%	8.8%	2.2%	0.0%	1.5%	0.3%	2.8%
Slovenia	n/a	6.4%	3.4%	6.8%	4.7%	9.7%	-1.7%	15.9%	11.4%	12.5%
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	5.4%	17.6%	10.2%	8.8%	5.9%	-0.9%	7.4%	6.4%	7.1%	6.1%
Sweden	0.5%	7.0%	9.6%	9.2%	11.0%	8.0%	6.3%	6.6%	9.6%	9.6%
UK	3.5%	9.3%	11.0%	11.5%	14.3%	8.4%	18.0%	14.7%	11.8%	5.6%
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	47.6%	36.5%
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	10.6%	4.8%	11.6%	10.5%	28.5%
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10%
Norway	11.0%	11.3%	8.5%	11.2%	15.7%	7.0%	5.0%	1.7%	10.2%	8.3%
Romania	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	91.3%	16.3%	32.0%	25.3%	18.8%	24.1%
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	-8.3%	-5.5%	-4.0%	-2.1%	0.3%	1.9%	2.8%	2.3%	2.3%	6.2%
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Statistics Offices

Notes:

- n/a: figures not available
- Belgium : average prices of
- Denmark: second hand dwellings only
- Greece: urban areas only; data are only until 2nd quarter 2005. The house price percentage change is calculated with regards to the 2nd quarter 2004 and 2nd quarter 2005.
- Spain: second hand dwellings only
- France: second hand dwellings only
- Ireland: average price of all residential property approved for mortgage
- Italy: urban areas only
- Latvia: average price for flat in Riga
- Austria: Vienna only
- Portugal: average prices in all cities
- Sweden: one and two dwellings buildings
- UK: mix adjusted all dwellings
- Bulgaria: average price for dwellings
- Montenegro: The figure is an estimate.
- Russia: secondary market of dwellings (second hand dwellings)

11. Building Prices, annual % change

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	0.0%	0.0%	2.7%	1.7%	4.2%	5.7%	1.5%	2.3%	5.3%	2.2%
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6.4%	4.7%	7.5%
Denmark	2.7%	2.8%	2.9%	3.4%	2.3%	3.7%	2.2%	2.6%	2.0%	2.4%
Germany	0.0%	-0.9%	-0.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	0.9%
Estonia	n/a	n/a	9.9%	1.0%	3.3%	5.4%	3.0%	3.2%	6.1%	6.8%
Greece	6.9%	5.9%	6.7%	4.8%	2.3%	2.2%	3.0%	2.5%	3.0%	3.2%
Spain	3.3%	2.4%	0.0%	3.9%	6.0%	0.0%	3.5%	1.4%	7.0%	4.7%
France	1.9%	2.8%	0.0%	0.9%	2.7%	3.4%	2.5%	2.4%	5.6%	2.3%
Ireland	0.9%	3.4%	4.1%	4.8%	3.8%	18.2%	6.2%	2.6%	3.1%	2.7%
Italy	1.6%	2.4%	-0.8%	1.6%	3.1%	9.8%	n/a	n/a	n/a	n/a
Cyprus	4.4%	3.5%	2.6%	2.6%	1.1%	5.9%	7.7%	12.4%	17.4%	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	-2.3%	0.1%	2.4%	6.3%	-0.6%
Lithuania	-6.9%	-6.0%	-3.9%	-3.1%	-1.3%	-1.4%	0.5%	1.0%	5.0%	1.4%
Luxembourg	0.9%	1.5%	1.8%	2.1%	3.1%	4.2%	2.6%	2.0%	2.9%	3.1%
Hungary	n/a	n/a	n/a	n/a	n/a	10.1%	-5.1%	1.1%	4.8%	-5.9%
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	4.0%	3.8%	3.7%	6.2%	5.0%	7.2%	10.4%	4.1%	-2.6%	n/a
Austria	n/a	1.8%	1.0%	0.2%	0.9%	1.1%	0.7%	0.9%	2.0%	1.8%
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	4.2%	3.7%	2.6%	3.3%	3.2%	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	-0.8%	2.5%	2.3%	2.2%	2.7%	2.7%	0.9%	2.6%	3.7%	3.7%
Sweden	1.2%	0.9%	2.9%	1.5%	4.5%	4.5%	3.5%	2.6%	3.1%	3.8%
UK	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
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	6.2%	3.7%	2.4%	2.3%	3.9%	6.8%	5.8%	3.3%	6.1%	3.9%
Montenegro	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
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	4.6%	1.6%	-1.8%	-1.5%	2.2%	1.8%
Turkey	n/a	n/a	n/a	n/a	n/a	56.5%	35.9%	21.3%	14.6%	10.3%
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

12. Total Outstanding Residential Loans, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	51,607	55,058	60,373	65,789	69,988	69,240	74,460	81,344	87,624	98,060
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	1,531	2,438	3,682	6,016
Denmark	90,617	106,382	116,425	124,373	130,508	141,332	151,822	164,408	174,300	195,762
Germany	895,779	942,845	1,012,998	1,118,786	1,097,914	1,122,809	1,139,830	1,156,341	1,157,026	1,162,588
Estonia	n/a	n/a	185	215	286	387	593	954	1,500	2,618
Greece	4,561	5,646	6,844	8,593	11,272	15,652	21,225	26,775	34,052	45,420
Spain	86,173	104,294	128,328	154,556	188,165	220,913	261,921	312,916	384,631	475,571
France	244,565	254,000	263,500	285,100	305,300	324,600	350,700	385,400	432,300	503,600
Ireland	13,879	17,195	20,855	26,186	32,546	38,343	47,212	59,362	77,029	98,956
Italy	70,683	75,124	84,652	101,037	117,020	123,831	142,844	173,357	206,341	243,622
Cyprus	n/a	n/a	308	490	584	680	870	1,162	1,487	2,144
Latvia	n/a	n/a	n/a	48	133	220	410	760	1,273	2,509
Lithuania	n/a	n/a	87	142	136	188	337	668	1,258	2,268
Luxembourg	3,440	3,615	4,037	4,458	5,494	6,157	6,647	7,830	8,797	10,006
Hungary	n/a	n/a	n/a	n/a	n/a	1,261	3,205	5,951	7,591	9,205
Malta	n/a	n/a	n/a	292	337	768	878	1,034	1,236	1,519
Netherlands	144,668	168,156	199,154	234,900	285,899	327,770	374,124	402,488	435,654	487,322
Austria	n/a	n/a	n/a	n/a	n/a	29,632	35,998	39,746	48,078	53,815
Poland	1,946	2,037	2,252	2,745	3,968	5,764	7,061	8,693	9,642	14,646
Portugal	n/a	n/a	n/a	42,180	50,735	57,365	64,838	66,233	71,101	79,452
Slovenia	n/a	n/a	n/a	52	65	99	201	263	800	1,301
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	1,011	1,415	2,196	3,078
Finland	30,460	31,930	34,360	37,240	39,990	43,370	46,873	51,025	58,125	65,946
Sweden	109,418	107,651	99,135	110,417	118,896	115,979	124,144	133,732	145,491	159,025
UK	554,420	646,734	647,389	750,949	879,950	950,604	1,073,710	1,119,305	1,291,606	1,414,386
EU 25	2,302,216	2,520,668	2,680,883	3,068,547	3,339,185	3,596,964	3,932,444	4,203,600	4,642,819	5,138,835
Bulgaria	n/a	n/a	n/a	43	54	79	120	205	510	1,006
Croatia	n/a	n/a	n/a	973	1,087	1,265	1,680	2,257	2,904	3,803
Iceland	3,756	3,459	3,640	4,384	5,333	5,233	5,759	6,412	7,551	10,553
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	15
Norway	52,966	52,608	53,377	62,148	71,416	80,370	97,129	103,460	110,967	125,260
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	823	1,449
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,015	5,072
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	4	23	89	307
Switzerland	160,144	177,890	187,513	185,707	198,249	213,115	229,667	236,379	248,664	262,433
Turkey	n/a	n/a	n/a	n/a	619	401	349	870	2,430	7,387
Ukraine	n/a	n/a	n/a	n/a	n/a	66	134	380	487	1,670

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

13. Gross Residential Loans, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	10,021	13,339	12,341	17,622	9,513	9,622	11,688	18,134	17,264	25,198
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	735	1,202	1,590	2,609
Denmark	20,813	24,750	37,634	32,559	20,909	37,232	37,634	58,390	51,655	86,213
Germany	n/a	n/a	n/a	n/a	n/a	110,900	105,900	113,100	99,900	103,100
Estonia	n/a	n/a	63	87	120	176	301	508	806	1,471
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,905	8,035	13,609
Spain	21,246	29,317	35,910	40,959	47,420	55,265	70,527	91,387	109,028	139,319
France	42,786	46,940	52,128	70,347	63,700	66,200	78,500	95,800	113,400	134,500
Ireland	2,960	3,589	4,587	6,517	7,598	7,664	10,825	13,524	16,933	21,536
Italy	18,278	20,999	26,446	41,162	42,704	44,245	53,173	59,850	68,544	79,500
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,734
Lithuania	n/a	n/a	n/a	49	52	105	211	348	594	1,136
Luxembourg	1,163	1,263	1,483	1,651	1,676	1,906	2,308	2,745	3,386	3,957
Hungary	654	n/a	n/a	n/a	n/a	597	2,031	3,261	n/a	1,933
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	37,610	48,310	60,028	78,032	69,593	72,609	81,385	95,996	87,164	114,134
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	18,260	17,578
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	5,708	6,593	9,058	8,443	7,457	8,787	8,202	13,851	19,494	28,806
Sweden	18,687	19,155	16,705	19,506	19,467	22,290	23,731	29,559	33,296	43,880
UK	96,998	115,792	126,693	174,154	196,469	257,530	351,012	400,832	429,155	421,231
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	862
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	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
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	n/a	38	148	454	1,477	6,938
Ukraine	n/a	n/a	n/a	n/a	n/a	92	188	493	585	1,837

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

14. Net Residential Loans, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	2,702	3,456	2,568	5,417	2,478	443	4,720	6,253	6,302	9,864
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	984	957	1,247	2,073
Denmark	5,276	7,015	8,181	6,103	6,088	8,359	9,491	10,948	9,680	19,757
Germany	72,962	60,761	60,357	68,942	40,172	27,004	19,311	20,600	7,858	5,738
Estonia	n/a	n/a	48	30	71	101	206	361	546	1,118
Greece	986	1,086	1,197	1,749	2,679	4,380	5,573	5,309	7,274	11,368
Spain	11,972	18,115	24,034	26,228	33,608	43,048	41,008	50,995	71,715	90,940
France	6,332	9,435	9,500	21,600	20,200	19,300	26,100	34,700	45,200	65,500
Ireland	1,940	3,316	3,659	5,331	6,360	5,797	8,869	12,151	17,787	21,927
Italy	3,023	4,441	10,050	16,384	14,982	6,811	19,013	30,513	32,980	37,281
Cyprus	n/a	n/a	73	180	89	99	189	305	321	644
Latvia	n/a	n/a	n/a	48	80	88	196	350	575	1,186
Lithuania	n/a	24	37	40	-64	44	145	331	590	1,010
Luxembourg	82	232	421	421	1,036	663	490	1,183	967	1,209
Hungary	n/a	n/a	n/a	n/a	n/a	528	1,874	2,881	1,598	1,505
Malta	n/a	n/a	n/a	n/a	40	424	144	184	208	271
Netherlands	19,186	23,488	30,998	35,746	50,999	41,871	46,354	28,364	33,166	51,668
Austria	n/a	n/a	n/a	n/a	n/a	n/a	6,366	3,748	8,332	5,737
Poland	n/a	221	295	673	1,073	1,433	1,574	2,502	1,193	3,909
Portugal	n/a	n/a	n/a	n/a	8,555	6,630	7,473	1,395	5,569	8,351
Slovenia	n/a	n/a	n/a	n/a	5	32	107	95	537	502
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	375	729	801
Finland	180	1,470	2,430	2,880	2,750	3,380	3,503	4,152	5,497	7,821
Sweden	2,738	n/a	158	3,611	3,742	7,488	6,975	9,097	11,760	16,009
UK	25,862	35,730	35,773	57,429	66,990	87,346	126,616	146,410	148,640	133,658
Bulgaria	n/a	n/a	n/a	15	11	24	41	85	306	496
Croatia	n/a	n/a	n/a	n/a	104	161	404	612	625	862
Iceland	367	-267	260	541	672	805	451	684	1,175	2,142
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	2,742	2,401	4,883	4,701	7,448	8,723	10,597	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	4	19	66	218
Switzerland	4,065	9,964	7,044	4,622	7,488	8,645	10,233	14,894	15,746	14,492
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	121	308	1,039	5,321
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	71	267	141	1,166

Source: European Mortgage Federation National Experts, National Central Banks
Note:
- n/a: figures not available
- Data for Cyprus, Malta; Austria, Slovakia, Bulgaria, Croatia and Iceland are estimates. The figures correspond to the difference in residential outstanding (between 2 years).

15. Total Outstanding Non Residential Loans, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	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	1,314	1,625
Denmark	33,694	35,186	36,964	39,047	39,845	41,763	45,189	48,567	51,479	55,840
Germany	179,890	185,971	199,058	207,797	217,645	223,644	232,701	257,432	258,045	258,569
Estonia	n/a	n/a	117	191	262	409	607	813	1,279	2,278
Greece	1,288	1,365	1,505	1,608	1,811	2,172	2,903	3,247	4,040	4,190
Spain	38,645	44,162	51,296	64,483	73,864	91,200	115,092	154,952	197,801	263,763
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	2,584	2,824	3,409	4,251	4,925	6,384	8,046	7,257	10,072	11,792
Italy	54,959	56,820	58,866	66,030	69,298	74,745	78,297	80,805	93,101	104,399
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	203	300	498	779	1,669
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Austria	n/a	n/a	n/a	n/a	n/a	36,712	35,184	35,371	31,929	31,673
Poland	n/a	n/a	n/a	n/a	n/a	n/a	718	1,141	1,732	2,316
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	15,720	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	7,653	7,701	8,008	8,781	9,609	8,375	8,015	8,181	7,434	7,314
UK	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
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	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
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	352	784
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	43
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	20	12	11	27	76	1,154
Ukraine	n/a	n/a	n/a	n/a	n/a	7	13	38	49	167

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

16. Gross Non Residential Loans, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	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	249	293	546	709
Denmark	11,209	10,656	15,917	15,050	6,489	12,657	11,997	18,143	13,672	25,363
Germany	n/a	n/a	n/a	n/a	n/a	22,100	22,100	24,900	25,000	26,900
Estonia	n/a	n/a	105	105	194	256	363	412	702	1,564
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	12,591	16,552	23,440	28,458	27,857	34,472	44,843	63,411	86,266	110,715
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Italy	4,310	6,214	16,044	22,444	23,358	21,963	26,832	29,320	31,241	35,821
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	153	120	413	552	638	828	823	1,108	779	784
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	14,081	15,824	23,527	27,654	24,419	35,112	28,324	40,717	n/a	n/a
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,520	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	1,950	1,818	2,737	2,412	2,214	1,927	1,959	2,089	1,469	1,553
UK	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
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	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
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	n/a	2	9	27	85	218
Ukraine	n/a	n/a	n/a	n/a	n/a	9	19	49	58	184

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

17. Net Non Residential Loans, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	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	449	332	218
Denmark	387	874	-2,964	2,152	1,311	2,701	3,237	3,290	2,717	4,384
Germany	15,110	8,831	11,155	8,742	6,123	2,822	2,978	-6,840	-2,441	-4,673
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	120	76	141	103	203	330	731	585	551	150
Spain	2,548	5,523	7,134	13,090	9,382	7,146	23,882	39,860	42,849	65,959
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	450	240	585	842	674	1,459	1,662	-790	959	1,720
Italy	184	-209	34,387	7,163	4,269	5,627	3,552	2,508	12,300	11,298
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	336	103	265	322	935
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	857	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	535	n/a	927	159	450	-389	-448	110	-745	11
UK	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
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	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
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	39	103	7	189

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

18. Representative interest rates on new mortgage loans

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	7.3%	7.6%	5.4%	7.1%	7.3%	6.9%	6.6%	6.0%	5.2%	5.0%
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Denmark	n/a	7.1%	6.3%	7.4%	7.2%	6.4%	5.7%	5.5%	5.0%	4.4%
Germany	7.1%	6.7%	5.3%	6.4%	6.4%	5.9%	5.5%	5.1%	4.6%	4.2%
Estonia	n/a	12.3%	12.7%	11.8%	13.1%	10.3%	7.4%	4.6%	3.7%	3.7%
Greece	5.6%	5.6%	5.5%	7.1%	7.0%	6.7%	6.7%	5.5%	4.5%	4.0%
Spain	6.2%	5.6%	4.9%	4.4%	5.9%	4.5%	3.8%	3.6%	3.2%	3.2%
France	7.4%	6.7%	5.6%	5.9%	6.4%	5.4%	5.1%	4.4%	4.3%	3.5%
Ireland	7.1%	7.5%	6.0%	4.4%	6.2%	4.7%	4.7%	3.5%	3.5%	3.7%
Italy	9.1%	7.2%	5.5%	6.1%	6.5%	5.3%	5.0%	4.8%	4.5%	4.1%
Cyprus	8.5%	8.0%	8.0%	8.0%	8.0%	7.0%	6.8%	6.3%	7.3%	6.2%
Latvia	n/a	n/a	n/a	14.2%	11.4%	11.1%	8.6%	8.3%	5.0%	5.2%
Lithuania	n/a	n/a	n/a	10.1%	9.9%	8.8%	6.1%	5.0%	4.5%	3.3%
Luxembourg	5.5%	5.5%	5.0%	5.0%	6.0%	4.8%	4.4%	3.4%	3.4%	4.1%
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.9%	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	6.0%	6.2%	5.3%	6.0%	6.4%	5.5%	5.2%	4.9%	4.8%	4.1%
Austria	7.8%	6.5%	6.0%	6.0%	7.1%	6.0%	5.4%	4.4%	3.9%	3.6%
Poland	n/a	n/a	n/a	n/a	n/a	n/a	9.6%	7.6%	8.1%	6.0%
Portugal	11.5%	8.0%	5.7%	5.0%	6.8%	5.0%	5.1%	4.3%	4.1%	4.2%
Slovenia	21.9%	19.6%	16.2%	12.4%	15.4%	14.8%	13.5%	10.8%	7.6%	6.2%
Slovakia	n/a	n/a	n/a	n/a	10.0%	9.1%	8.6%	7.2%	6.9%	4.7%
Finland	5.5%	5.9%	5.6%	5.0%	6.5%	5.3%	4.1%	3.4%	3.4%	3.0%
Sweden	5.4%	5.4%	4.6%	4.4%	4.9%	4.7%	4.9%	3.7%	3.0%	2.4%
UK	7.0%	8.5%	8.0%	7.1%	7.6%	5.7%	5.6%	5.6%	6.6%	6.4%
Bulgaria	43.3%	17.2%	17.8%	17.9%	15.9%	15.1%	13.1%	12.6%	10.6%	6.9%
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	7.4%	6.0%	5.7%	5.0%
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.0%
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7.8%
Norway	6.4%	5.6%	9.5%	7.1%	8.5%	8.4%	7.5%	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6%
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3.4%	3.2%	3.2%
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	17.5%	15.0%
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

19. Total Covered Bonds Outstanding, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	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	3,863
Denmark	119,452	135,996	148,677	154,108	165,862	193,980	202,678	226,164	249,728	286,238
Germany	194,923	209,758	226,607	235,800	247,484	255,873	261,165	256,027	246,636	237,547
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	6,707	6,906	7,771	11,533	11,539	14,328	25,266	58,448	96,083	157,663
France	n/a	n/a	n/a	35,216	47,701	43,006	44,351	21,079	26,816	32,133
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000	4,140
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	40
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14	14
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,622	4,962	5,072
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,000
Austria	4,820	4,887	4,903	4,959	4,542	4,256	3,520	3,200	3,000	3,560
Poland	n/a	n/a	n/a	n/a	n/a	n/a	99	160	220	558
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	48	47	65	250	1,500
Sweden	89,886	81,652	80,259	80,352	75,060	65,294	70,865	81,569	81,428	92,808
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,000	15,668	25,439
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	8,352	8,756	9,200	10,587	15,743	18,131	19,908	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
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	29,442	31,845	30,327	28,738	29,002
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation National Experts, National Covered Bonds

Notes:

- n/a: figures not available
- Covered bonds in this table include bonds secured on property by mortgage lending institutions. Even though covered bonds legislation exists in Greece and Portugal, covered bonds have not been issued there. There is no covered bond legislation in Belgium. In Italy, covered bonds legislation has been introduced in 2005 and covered bonds will be issued in 2006.Covered bonds were not issued in the UK and Ireland before 2003. In other countries where data is missing, covered bonds may have been issued but the quality of the data is uncertain.
- Data from 2003 to 2005 are from the ECBC for all the countries (except for Finland for which the ECBC provided data only for 2004 & 2005; and for Austria for which the ECBC provided data only for 2005), as a consequence there could be a break in the series.

20. Total MBS Issues, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	n/a	n/a	n/a	n/a	39	60	n/a	2,270	1,050	n/a
Czech Republic	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10	20	n/a
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	13
Germany	n/a	n/a	n/a	n/a	n/a	n/a	3,030	2,860	1,130	n/a
Estonia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Greece	n/a	n/a	n/a	n/a	n/a	n/a	n/a	250	741	1,500
Spain	108	705	3,542	6,261	3,124	6,858	8,235	16,167	20,059	27,300
France	n/a	n/a	n/a	n/a	n/a	n/a	4,590	6,080	4,690	4,000
Ireland	254	n/a	508	1,150	2,790	1,830	520	1,820	n/a	1,500
Italy	n/a	n/a	n/a	n/a	3,080	11,400	7,490	9,070	8,862	8,200
Cyprus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Latvia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	51	n/a
Lithuania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Malta	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Netherlands	227	1,361	924	3,843	7,430	9,171	17,611	17,900	16,060	n/a
Austria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	1,000	1,900	8,000	4,920	7,000
Slovenia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Slovakia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Finland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sweden	n/a	n/a	n/a	n/a	n/a	280	1,470	1,000	1,513	n/a
UK	n/a	n/a	n/a	n/a	22,669	25,393	35,336	55,301	80,441	103,393
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Montenegro	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
Romania	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: European Mortgage Federation, European Securitisation Forum
Notes:
- n/a: figures not available
- Pre 2001, where data is missing, MBS may have been issued. However, the quality of the data is uncertain and was therefore omitted.

21. GDP at Market Prices, € million

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	217,001	220,129	227,985	238,233	251,741	258,884	267,578	274,582	288,089	298,180
Czech Republic	48,195	49,683	54,440	55,345	60,397	67,960	78,388	80,254	86,787	98,418
Denmark	145,324	150,414	155,163	163,200	173,598	179,226	184,744	189,641	197,222	208,206
Germany	1,921,661	1,907,246	1,952,107	2,012,000	2,062,500	2,113,160	2,145,020	2,163,400	2,215,650	2,247,400
Estonia	3,660	4,364	4,955	5,226	5,940	6,676	7,472	8,138	9,043	10,540
Greece	97,973	107,103	108,977	117,850	125,892	133,105	143,482	155,543	168,417	181,088
Spain	490,446	505,392	536,943	579,983	630,263	679,842	729,021	780,550	837,316	904,323
France	1,240,363	1,258,311	1,316,172	1,366,466	1,441,372	1,497,184	1,548,555	1,594,814	1,659,020	1,710,024
Ireland	58,370	71,718	78,811	90,612	104,379	117,114	130,515	139,097	148,557	160,322
Italy	992,152	1,052,554	1,087,220	1,127,091	1,191,057	1,248,648	1,295,226	1,335,354	1,388,870	1,417,241
Cyprus	7,264	7,764	8,394	9,008	9,895	10,599	11,073	11,651	12,402	13,418
Latvia	4,397	5,403	5,911	6,818	8,496	9,320	9,911	9,978	11,145	12,789
Lithuania	6,358	8,681	9,896	10,169	12,408	13,556	15,017	16,443	18,083	20,587
Luxembourg	16,215	16,342	17,294	19,887	22,001	22,572	24,028	25,684	27,056	29,325
Hungary	35,580	40,352	41,931	45,075	51,039	58,419	69,622	73,538	81,179	87,826
Malta	n/a	n/a	3,445	3,708	4,240	4,344	4,454	4,330	4,316	4,497
Netherlands	329,316	341,139	359,859	386,193	417,960	447,731	465,214	476,349	488,642	501,921
Austria	186,283	184,287	191,076	200,025	210,392	215,878	220,688	226,968	237,039	246,113
Poland	123,436	138,705	153,429	157,617	185,775	212,196	209,431	191,408	203,711	243,398
Portugal	92,690	98,832	105,760	114,193	122,270	129,308	135,434	137,523	143,029	147,395
Slovenia	16,129	17,399	18,794	20,152	20,814	22,018	23,699	24,860	26,146	27,373
Slovakia	16,403	18,699	19,763	19,131	22,096	23,570	26,034	29,229	33,863	38,138
Finland	101,366	109,075	116,644	120,965	130,859	136,472	140,853	143,807	149,725	155,320
Sweden	214,855	220,162	222,887	238,020	262,550	247,253	258,878	269,548	282,014	287,970
UK	938,269	1,170,875	1,272,142	1,374,500	1,564,573	1,602,840	1,667,312	1,598,172	1,715,791	1,768,549
EU 15	7,042,283	7,413,578	7,749,040	8,149,218	8,711,407	9,029,217	9,356,548	9,511,032	9,946,436	10,263,377
EU 25	7,303,704	7,704,629	8,069,997	8,481,466	9,092,505	9,457,875	9,811,648	9,960,861	10,433,111	10,820,361
Bulgaria	7,822	9,168	11,386	12,164	13,704	15,250	16,589	17,725	19,595	21,448
Croatia	15,657	17,739	19,305	18,677	19,955	22,138	24,448	26,216	27,623	30,004
Iceland	5,756	6,538	7,328	8,144	9,346	8,749	9,278	9,554	10,521	12,732
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,644
Norway	125,287	138,596	133,729	148,373	181,079	189,632	202,319	197,012	205,137	237,707
Romania	n/a	n/a	37,436	33,388	40,346	44,904	48,442	52,613	60,818	79,314
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	473,668	613,554
Serbia	n/a	n/a	n/a	9,583	9,315	12,925	16,421	18,297	19,291	21,374
Switzerland	238,532	231,504	240,557	248,637	266,724	279,699	293,474	285,671	288,853	295,117
Turkey	143,121	167,799	177,796	173,097	216,736	161,836	192,803	212,268	242,262	290,503
Ukraine	81,519	93,365	102,593	130,442	170,070	204,190	225,810	267,344	345,943	421,540

Source: Eurostat
Note:
- n/a: figures not available

22. Inflation, HICP, Annual % change

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	1.8%	1.5%	0.9%	1.1%	2.7%	2.4%	1.6%	1.5%	1.9%	2.5%
Czech Republic	9.1%	8.0%	9.7%	1.8%	3.9%	4.5%	1.4%	-0.1%	2.6%	1.6%
Denmark	2.1%	1.9%	1.3%	2.1%	2.7%	2.3%	2.4%	2.0%	0.9%	1.7%
Germany	1.2%	1.5%	0.6%	0.7%	1.4%	1.9%	1.3%	1.0%	1.8%	1.9%
Estonia	19.8%	9.3%	8.8%	3.1%	3.9%	5.6%	3.6%	1.4%	3.0%	4.1%
Greece	7.9%	5.4%	4.5%	2.1%	2.9%	3.7%	3.9%	3.4%	3.0%	3.5%
Spain	3.6%	1.9%	1.8%	2.2%	3.5%	2.8%	3.6%	3.1%	3.1%	3.4%
France	2.1%	1.3%	0.7%	0.6%	1.8%	1.8%	1.9%	2.2%	2.3%	1.9%
Ireland	2.2%	1.3%	2.1%	2.5%	5.3%	4.0%	4.7%	4.0%	2.3%	2.2%
Italy	4.0%	1.9%	2.0%	1.7%	2.6%	2.3%	2.6%	2.8%	2.3%	2.2%
Cyprus	n/a	3.3%	2.3%	1.1%	4.9%	2.0%	2.8%	4.0%	1.9%	2.0%
Latvia	n/a	8.1%	4.3%	2.1%	2.6%	2.5%	2.0%	2.9%	6.2%	6.9%
Lithuania	10.3%	8.8%	5.4%	1.5%	1.1%	1.6%	0.3%	-1.1%	1.2%	2.7%
Luxembourg	1.2%	1.4%	1.0%	1.0%	3.8%	2.4%	2.1%	2.5%	3.2%	3.8%
Hungary	23.5%	18.5%	14.2%	10.0%	10.0%	9.1%	5.2%	4.7%	6.8%	3.5%
Malta	n/a	3.9%	3.7%	2.3%	3.0%	2.5%	2.6%	1.9%	2.7%	2.5%
Netherlands	1.4%	1.9%	1.8%	2.0%	2.3%	5.1%	3.9%	2.2%	1.4%	1.5%
Austria	1.8%	1.2%	0.8%	0.5%	2.0%	2.3%	1.7%	1.3%	2.0%	2.1%
Poland	n/a	15.0%	11.8%	7.2%	10.1%	5.3%	1.9%	0.7%	3.6%	2.2%
Portugal	2.9%	1.9%	2.2%	2.2%	2.8%	4.4%	3.7%	3.3%	2.5%	2.1%
Slovenia	9.9%	8.3%	7.9%	6.1%	8.9%	8.6%	7.5%	5.7%	3.7%	2.5%
Slovakia	5.8%	6.0%	6.7%	10.4%	12.2%	7.2%	3.5%	8.4%	7.5%	2.8%
Finland	1.2%	1.3%	1.3%	2.9%	2.7%	2.0%	1.3%	0.1%	0.8%	n/a
Sweden	0.8%	1.8%	1.0%	0.6%	1.3%	2.7%	2.0%	2.3%	1.0%	0.8%
UK	2.5%	1.8%	1.6%	1.4%	0.8%	1.2%	1.3%	1.4%	1.3%	2.1%
EU 15	2.4%	1.7%	1.3%	1.2%	1.9%	2.2%	2.1%	2.0%	2.0%	2.0%
EU 25	3.1%	2.6%	2.1%	1.6%	2.1%	2.5%	2.1%	1.9%	2.1%	2.1%
Bulgaria	n/a	n/a	18.7%	2.6%	10.3%	7.4%	5.8%	2.3%	6.1%	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Iceland	2.2%	1.8%	1.3%	2.1%	4.4%	6.6%	5.3%	1.4%	2.3%	1.4%
Montenegro	n/a	n/a	n/a	n/a	n/a	5.1%	n/a	n/a	1.4%	n/a
Norway	0.7%	2.6%	2.0%	2.1%	3.0%	2.7%	0.8%	2.0%	0.6%	1.5%
Romania	38.8%	154.9%	59.1%	45.8%	45.7%	34.5%	22.5%	15.3%	11.9%	9.1%
Russia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	29.5%	42.1%	69.9%	91.1%	21.2%	11.3%	9.5%	15.4%
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Turkey	79.4%	85.0%	83.6%	63.5%	54.3%	53.9%	44.8%	25.2%	10.3%	8.4%
Ukraine	80.2%	15.9%	10.6%	22.7%	28.2%	12.0%	0.8%	5.2%	9.0%	14.2%

Source: Eurostat
Notes:
- n/a: figures not available

23. Population, 000s

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Belgium	10,143	10,170	10,192	10,214	10,239	10,263	10,310	10,356	10,396	10,446
Czech Republic	10,321	10,309	10,299	10,290	10,278	10,267	10,206	10,203	10,212	10,221
Denmark	5,251	5,275	5,295	5,314	5,330	5,349	5,368	5,384	5,398	5,411
Germany	81,818	82,012	82,060	82,037	82,164	82,260	82,440	82,537	82,532	82,501
Estonia	1,425	1,406	1,393	1,379	1,372	1,367	1,361	1,356	1,351	1,347
Greece	10,674	10,745	10,808	10,861	10,904	10,931	10,969	11,006	11,041	11,076
Spain	39,383	39,468	39,571	39,724	39,961	40,376	40,851	41,551	42,345	43,038
France	57,936	58,116	58,299	58,497	58,749	59,043	59,343	59,635	59,901	60,561
Ireland	3,620	3,655	3,694	3,732	3,778	3,833	3,900	3,964	4,028	4,109
Italy	56,846	56,879	56,908	56,914	56,930	56,968	56,994	57,321	57,888	58,462
Cyprus	656	666	675	683	691	698	706	715	730	749
Latvia	2,470	2,445	2,421	2,399	2,382	2,364	2,346	2,332	2,319	2,306
Lithuania	3,615	3,588	3,562	3,536	3,512	3,487	3,476	3,463	3,446	3,425
Luxembourg	412	417	422	427	434	439	444	448	452	455
Hungary	10,321	10,301	10,280	10,253	10,222	10,200	10,175	10,142	10,117	10,098
Malta	371	374	377	379	380	391	395	397	400	403
Netherlands	15,494	15,567	15,654	15,760	15,864	15,987	16,105	16,193	16,258	16,306
Austria	7,953	7,965	7,971	7,983	8,002	8,021	8,065	8,102	8,140	8,207
Poland	38,609	38,639	38,660	38,667	38,654	38,254	38,242	38,219	38,191	38,174
Portugal	10,043	10,073	10,110	10,149	10,195	10,257	10,329	10,408	10,475	10,529
Slovenia	1,990	1,987	1,985	1,978	1,988	1,990	1,994	1,995	1,996	1,998
Slovakia	5,368	5,379	5,388	5,393	5,399	5,379	5,379	5,379	5,380	5,385
Finland	5,117	5,132	5,147	5,160	5,171	5,181	5,195	5,206	5,220	5,237
Sweden	8,838	8,845	8,848	8,854	8,861	8,883	8,909	8,941	8,976	9,011
UK	58,704	58,905	59,090	59,391	59,623	59,863	59,140	59,329	59,673	60,035
EU 15	372,231	373,223	374,069	375,017	376,204	377,653	378,361	380,379	382,722	385,383
EU 25	447,378	448,318	449,108	449,975	451,080	452,050	452,641	454,580	456,863	459,488
Bulgaria	8,385	8,341	8,283	8,230	8,191	7,929	7,892	7,846	7,801	7,761
Croatia	4,597	n/a	4,582	n/a	4,568	4,438	4,444	4,442	4,442	4,444
Iceland	268	270	272	276	279	283	287	289	291	294
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	623,200
Norway	4,370	4,393	4,418	4,445	4,479	4,503	4,524	4,552	4,578	4,606
Romania	22,656	22,582	22,526	22,489	22,456	22,431	21,834	21,773	21,711	21,659
Russia	148,300	n/a	n/a	n/a	n/a	146,300	145,200	145,000	144,200	143,500
Serbia	n/a	7,831	7,800	7,773	7,661	7,736	7,500	7,481	7,463	n/a
Switzerland	7,062	7,081	7,097	7,124	7,164	7,204	7,256	7,314	7,364	7,415
Turkey	62,697	62,480	63,459	64,345	67,461	68,618	69,626	70,172	70,690	71,608
Ukraine	50,818	50,371	49,918	49,430	48,923	48,457	48,004	47,623	47,281	46,930

Source: Eurostat
Note:
- n/a: figures not available