

## THE ROLE OF THE STATE IN THE DEVELOPMENT OF HOUSING LOAN MARKET IN POLAND AND UKRAINE

Milena Bera<sup>1</sup>, PhD; Monika Spiewak - Szyjka<sup>2</sup>, PhD

<sup>1,2</sup>West Pomeranian University of Technology in Szczecin, Faculty of Economics

**Abstract.** The real estate financing market in Poland and Ukraine changed substantially between the years 2006 and 2017. The changes were highly dynamic. This publication analyses both common and different features of the housing market in Poland and Ukraine; it also studies housing property markets in terms of housing financing in Poland and Ukraine. The current state of affairs on the residential real estate financing market has been presented from the point of view of an average Polish and Ukrainian citizen – a buyer of the real estate and a borrower. In order to preserve topicality, the analysis has focused on how these markets behaved in the last few years but the situation in previous years has also been taken into account.

**Key words:** real estate market, housing loan market, Poland, Ukraine, state support program.

**JEL code:** R38.

### Introduction

Each state has the responsibility of satisfying the housing needs of its citizens in line with its own preferences and economic opportunities. The assessment of the effectiveness of government instruments for supporting housing is not based only on the analysis of the amount of allocated financial resources, but also on their effectiveness (i.e. the number of housing investments, the level of existing resources maintenance) and economic and social purposefulness.

In the years 2006 - 2017, the real estate financing market in Poland and Ukraine has changed a lot. These changes were characterized by high dynamics.

The aim of this publication is to analyze common and different characteristics of the housing market in Poland and Ukraine, residential real estate markets in terms of housing loans in Poland and Ukraine.

The current state of the residential real estate financing market was presented from the point of view of the average young Pole and the Ukrainian - the buyer of the real estate and the borrower. The analysis of the most important government programs in Poland and Ukraine, supporting the purchase of real estate for young Poles and Ukrainians was made. To keep the publication current, the focus was on analyzing the last few years of functioning of these markets, taking into account the situation in previous years.

The publication uses the method of in-depth analysis of source materials: documents, reports and statistical data.

### Problems, purpose and scope of the study

A bank loan is an important instrument in the development of the residential real estate market. The creditworthiness of Poles was positively affected due to low interest rates and the increase in households' incomes within 2014 – 2017. The group of potential borrowers was growing year after year. The year 2017 turned out to be record-breaking for both the housing market and the credit market. Banks granted over 190,000 housing loans with a total value of PLN 44 billion, which was the best result in the banking sector for six years.

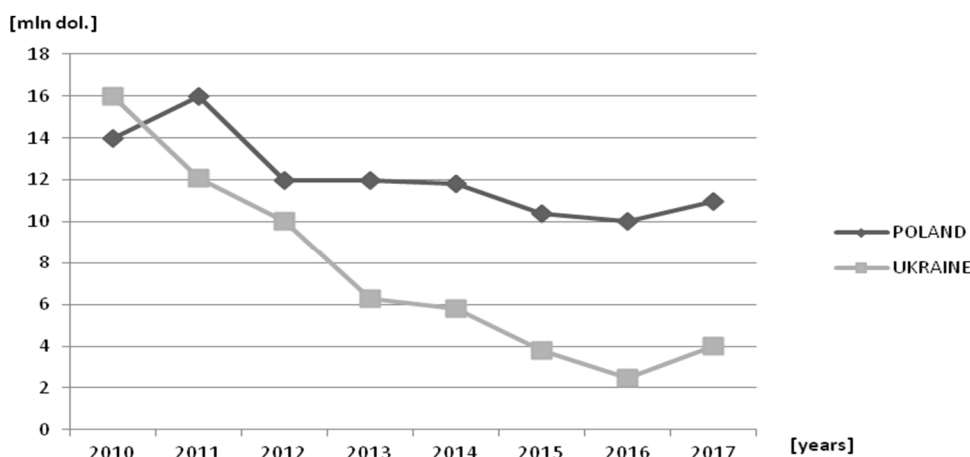
The situation was entirely different in Ukraine. The number of those willing to obtain a bank loan was decreasing throughout the years of 2014 – 2016, because of the increase in the interest rates

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<sup>1</sup> Milena Bera. Tel.: +48 9144 96980; fax: +48 9144 96980.  
E-mail address: milena.bera@zut.edu.pl

<sup>2</sup> Monika Spiewak - Szyjka. Tel.: +48 9144 96980; fax: +48 9144 96980.  
E-mail address: monika.spiewak-szyjka@zut.edu.pl

on housing loans. A slight revival of the market occurred at the time when loan rates were lowered in 2017.



**Source:** authors' study based on data from the National Bank of Ukraine, [https://bank.gov.ua/control/uk ...](https://bank.gov.ua/control/uk...), (date of access: 20/03/2017) and the Report on Housing Loans and Transaction Prices of Real Estate AMRON-SARFiN 4/2016, no. 30, (2017). Polish Banks Association, Warszawa, pp.7

Fig. 1. Value of newly-granted housing loans in Poland and Ukraine (million USD)

According to a study carried out in 2014 by the National Bank of Poland, out of 12.1 % of households that declared indebtedness with housing loans, 10.8 % financed their new dwelling, and 1.6 % - another owned real property. Borrowed capital is often used by the public not only to meet their own housing needs but also for speculative purposes. Some individual clients used loans to purchase a real property for rent. Low loan instalments enabled the rental income to cover not only the loan instalment but also other personal expenses (Kowalczyk-Rolczynska P., 2011). Such situations could be observed especially in large cities, where many students live and, consequently, where there is a high demand for flats to rent. In Ukraine, the situation on the housing rental market has improved in recent years, but it has not been influenced by positive changes in the economy. The internal migration of Ukrainians from the eastern regions is the reason for the increase in the demand for real estate.

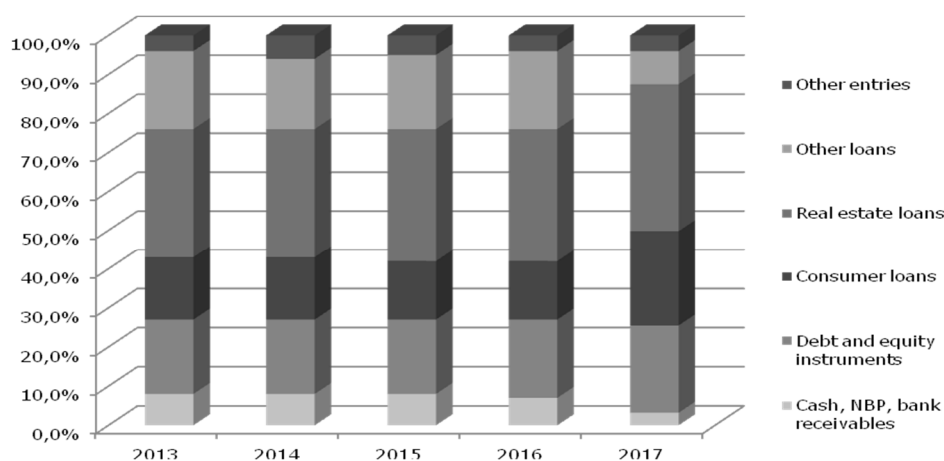
The active behavior of Poles in the housing market leads to record sales results, which encourages developers to further investments. In 2016, 1 622 727 new apartments were built in Poland, which is 10 % more than in 2015. The construction of 173 932 flats commenced and 12 % more building permits were issued for 211 565 new apartments. These were the best results since 2008 (Report on Housing Loans ..., 2016). When compared to Poland, the number of permits issued for the construction of new apartments in Ukraine in the same period was low and amounted to 650 permits. While maintaining the same pace of construction on the primary real estate market, the balance between demand and supply will not be sustained.

Housing loans are the basis for retail cross-selling for most banks currently operating on the market. The offer now includes not only an account holding, a bank card or an overdraft facility but also a housing loan itself. It seems only natural that clients look for a loan in their bank first. That is why it is difficult for mortgage banks to acquire new customers and operate on the market with such extensive networks of universal banks in operation.

The most significant share of the assets structure of Polish banks, which is presented in Figure 2 below, the loans remain the most significant item, amounting to 70.5 % in 2017. The percentage of housing loans was much higher than that of consumer loans. As can be seen, there were No major

changes in the assets structure between 2013 and 2017. The share of housing loans fell by around 0.5 % in 2014, but the growth could already be noticed in 2017.

Polish banks tightened the criteria of granting housing loans in 2016. The government actions and, especially, the adoption of the Banking Tax Act in January 2016 negatively affected the development of the loan market in Poland. As a result, bank charges and mortgage margins increased (Report Situation on the Loan Market. ..., 2016). Adjustment of the borrower's income, taking into account the retirement age during the loan period and the update of the parameters used to assess creditworthiness are other factors that influenced the supply of loans.



**Source: authors' study based on the Report on the Condition of Banks in 2013-2016, (2017).Office of the Polish Financial Supervision Authority, Warsaw, pp. 43**

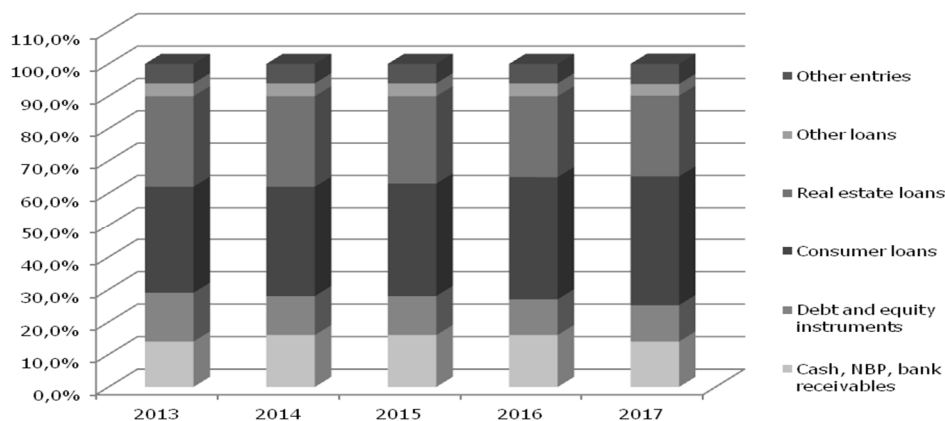
**Fig. 2. The structure of bank assets in Poland in 2013 - 2017 ( %)**

At the end of 2017, the claims on account of housing loans granted to households amounted to 58.7 % of all bank claims from this customer category. The reduction of this indicator amounted to 5.6 percentage points within a year, which can be considered a large change. A year earlier, there had only been a slight change in the significance of the claims but in both these years the above-mentioned changes in the current exchange rates of foreign currencies had a significant impact on the results. The claims on housing loans from households accounted for 37.7 % of receivables from non-financial entities at the end of 2017. This share was lower by 3.7 percentage points a year earlier.

In 2015, the banking sector of Ukraine operated in very difficult and unstable conditions. Ridding this sector of insolvent banks was the main task for the National Bank. As a result, the number of banks decreased from 147 to 117 (status on January 1, 2016). The process continues and further 62 banks are under liquidation. The foreign interest in the share capital of operating banks is 39.4 %, the state interest – 38 %. The five largest banks held 54 % of all assets of the sector (National Bank of Ukraine ..., 2017).

The Figure below shows the asset structure of Ukrainian banks in 2013 – 2017. The distribution of the bank assets in the compared countries differed.

The loans granted to households and legal entities constituted the largest proportion of 64 % - 66 %. Consumer loans accounted for 40 % in the bank's loan portfolio last year. Throughout 2013 – 2017, the share of housing loans decreased continuously and reached the level of 25 %.



**Source:** authors' study based on data on the National Bank of Ukraine, Condition of Banks in 2013 - 2016, Retrieved: [www.bank.gov.ua](http://www.bank.gov.ua) . Access: 07.04.2017.

Fig. 3. The structure of bank assets in Ukraine in 2013 - 2017 ( % )

The household loan portfolio continues to grow at a fast rate. In April 2018, net hryvnia household loans were up by 39 % yoy. The uptrend persisted unchecked, despite the growth decelerating at the start of the year due to statistical effects. The household loan portfolio in all currencies could have generated stronger growth if it were not for the repayment and writing-off of old foreign currency loans. Practically all of these loans remain NPLs. This situation will not change unless legislation is passed to tackle the problem of foreign currency mortgages, and the moratorium on foreclosing on the collateral for such loans is lifted. By the end of 2017 and in Q1 2018, all the banks that were able to enter the consumer lending market had done so. About half of all financial institutions ramped up retail lending in Q1 2018. The concentration of retail loans is rather high, with five banks accounting for 65 % of the sector's total portfolio. Concentration is at its highest in the car loan sector, where five banks account for 80 % of the market. As more banks are offering real estate loans, the concentration of such loans is decreasing (National Bank of Ukraine ..., 2018).

### Instruments of housing development in Poland

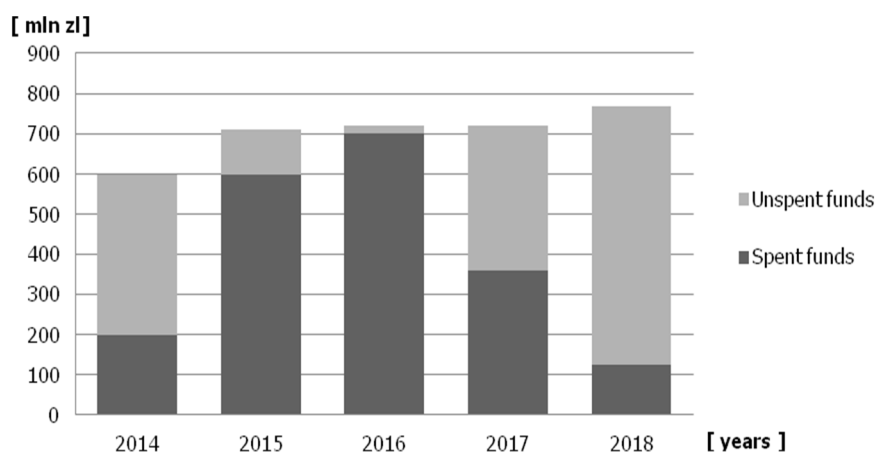
The public authorities of each country are obliged to pursue policies that support citizens in resolving housing issues. The objectives and forms of state investment in the Polish housing market change over time. Poland implements the following instruments of housing development: the National Housing Program, Apartment for the Young program, building society books, social housing, housing cooperatives and housing allowances (Ministry of Infrastructure and Construction, 2017).

The program called "Apartment for the Young" (AfY) was introduced in January 2014 as a form of government support for young people to solve housing shortage in Poland. The assistance under the "AfY" is based on co-financing of own contributions in order to obtain housing loans. The families in which a third child appears can also get assistance in the form of an early partial repayment of the loan principal. The people who begin building their own dwelling (a flat or a single-family house) can obtain a partial VAT refund on building materials.

The conditions for co-financing include, inter alia (Law, 2004):

- not having another flat (also in the past) – does not apply to persons/families with three children;
- age - up to 35 years of age (the age of the younger spouse) – does not apply to persons/families with three children;
- loan amount – at least 50 % of the flat value; for the period of at least 15 years; the housing loan agreement in Polish currency;

The „AfY” program became operational in the beginning of 2014 and the banks accepted more than 4 300 applications in the first quarter of that year. As many as 13 968 loan agreements with a total value of more than PLN 2.6 billion were signed till the end of 2014. The program gained even more popularity at the start of 2015. The amendment to the act, which extended the scope of the program to the secondary market, triggered an avalanche of applications for the co-financing of own contributions. December 2015 was a record month in this respect; Bank Gospodarstwa Krajowego received more than 6 500 applications with the total amount of PLN 172.05 million. On March 15, 2016, BGK announced the cessation of accepting applications for subsidies from the pool of funds anticipated for 2016, and it did the same on 5 July – for 2017. Since that moment, the subsidies became obtainable only in 2018. Throughout the years of 2014 – 2016, 76 160 applications were submitted through banks by residents and 74 759 loan agreements were signed with a total value of PLN 13.151 billion.



**Source: authors' study based on the Report on Housing Loans and Transaction Prices of Real Estate AMRON-SARFiN 4/2016, no. 30, (2017). Polish Banks Association, Warszawa, pp 14**

**Fig. 4. The use of the annual limit of funds planned for granting financial support under the "AfY" program (PLN million)**

As the data presented in Figure 4 demonstrate, only 34.5 % of the allocated funds were used in 2014 but, as the program implementation unfolded, that value increased up to 84.7 % in 2015 and up to 96.1 % in 2016. 48.6 % of funds were reserved at the end of the previous year and 18.1 % – in 2017.

The average area of a flat purchased under the program was 53.71 m<sup>2</sup> and for a single-family house – 86.48 m<sup>2</sup>; the average price of a flat was PLN 219 700 and for a house – PLN 290 100.

The distribution of subsidy funds varied highly between regions. Within the first year, half of the funds went to the Masovian, Greater Poland and Pomeranian voivodeships. The other half was shared by the remaining thirteen voivodeships. The situation remained unchanged until the fourth quarter of 2017 – the three voivodeships received more than 52 % of all the funds.

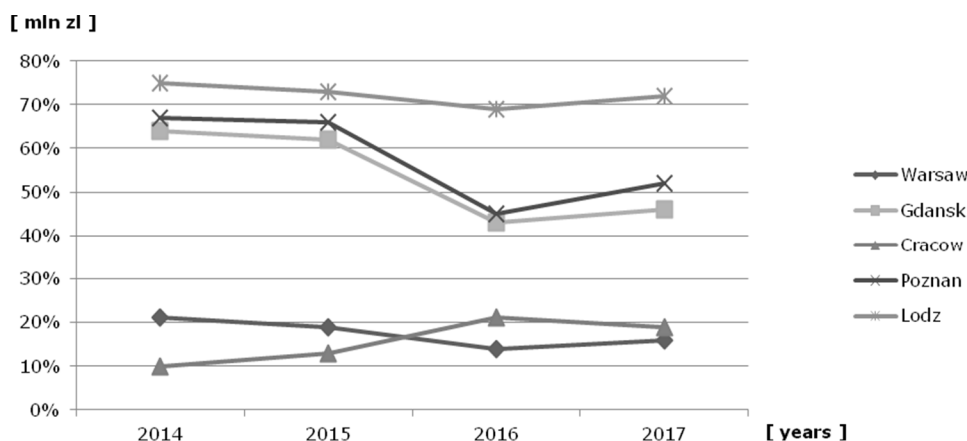
**The comparison of average transaction prices of flats in 2014 – 2017 and price limits of the largest cities in Poland**

Town/Price		I quarter 2014 [zł/m <sup>2</sup> ]	IV quarter 2014 [zł/m <sup>2</sup> ]	IV quarter 2015		IV quarter 2016		IV quarter 2017	
				Primary market [zł/m <sup>2</sup> ]	Secondary market [zł/ m <sup>2</sup> ]	Primary market [zł/ m <sup>2</sup> ]	Secondary market [zł/ m <sup>2</sup> ]	Primary market [zł/ m <sup>2</sup> ]	Secondary market [zł/ m <sup>2</sup> ]
<b>Warsaw</b>	Average	7145	7204	7411	7213	7429	7563	7751	7 915
	Limit	5865	6583	6417	5251	6433	5263	6264	5 125
<b>Gdansk</b>	Average	5297	5226	5479	5115	5785	5654	6829	6 337
	Limit	5682	5426	5234	4283	5094	4168	5337	4 367
<b>Krakow</b>	Average	6052	6118	6250	5920	6349	6288	6755	6 276
	Limit	4894	5083	5247	4293	5247	4293	5344	4 373
<b>Poznan</b>	Average	5417	5701	5816	5075	6089	5494	6382	5 550
	Limit	5605	5916	5925	4847	5711	4672	5728	4 686
<b>Lodz</b>	Average	3612	4321	4225	3322	4677	3619	5148	3 784
	Limit	5031	4718	4330	3543	4200	3437	4191	3 429

*Source: authors' study based on the Report on Housing Loans and Real Estate Transaction Prices in 2014,2015,2016 AMRON - SARFiN, (2015,2016,2017). No. 22, pp. 16 , No. 26, pp. 18 / No. 30, pp. 16 Polish Bank Association, Warszawa*

In the fourth quarter of 2017, the maximum price per square meter of a floor area of a flat or a house covered by the "Apartment for the Young" program was reduced for Warsaw (by PLN 140.58 on the primary market and PLN 115.01 on the secondary market) and Wrocław (by 27.50 PLN on the primary market and by PLN 22.50 on the secondary market). On the other hand, transaction price limits were raised in Krakow, Lodz and Poznan – by PLN 84.15, PLN 36.30 and PLN 4.95 on the primary market and PLN 68.85, PLN 29.70 and PLN 3.75 on the secondary market respectively.

The data contained in Table 1 show that, out of all Polish cities, the inhabitants of Lodz found themselves in the best situation because as many as 86 % of apartments for sale were within the limit of PLN 5031/m<sup>2</sup> at the beginning of the program in 2014. Gdansk occupied the second position, as 66 % of the apartments in the city could be purchased with government subsidies; the price of 1m<sup>2</sup> was PLN 5297, and the limit was PLN 5682. Poznan was ranked third, since 50 % of the total number of transactions concluded on the primary market was within the limit; the average price of 1m<sup>2</sup> was PLN 5417. The residents of Krakow turned out to be at the worst disadvantage, as the average price of 1m<sup>2</sup> was PLN 6052 and the limit under the program was PLN 4894/m<sup>2</sup>. As for Warsaw, 15 % of the apartments could be purchased with state funding. The average price of 1m<sup>2</sup> was PLN 7215 and the limit stood at PLN 6127.



**Source: authors' study based on the Report on Housing Loans and Real Estate Transaction Prices in 2014, 2015, 2016 AMRON - SARFiN, (2015, 2016, 2017). Polish Bank Association, Warsaw, No. 22, pp. 16, No. 26, pp. 18, No. 30, pp. 16**

**Fig. 5. Dwellings within the limits of "AfY" program on the primary market in selected cities in the years of 2014 – 2017 ( % )**

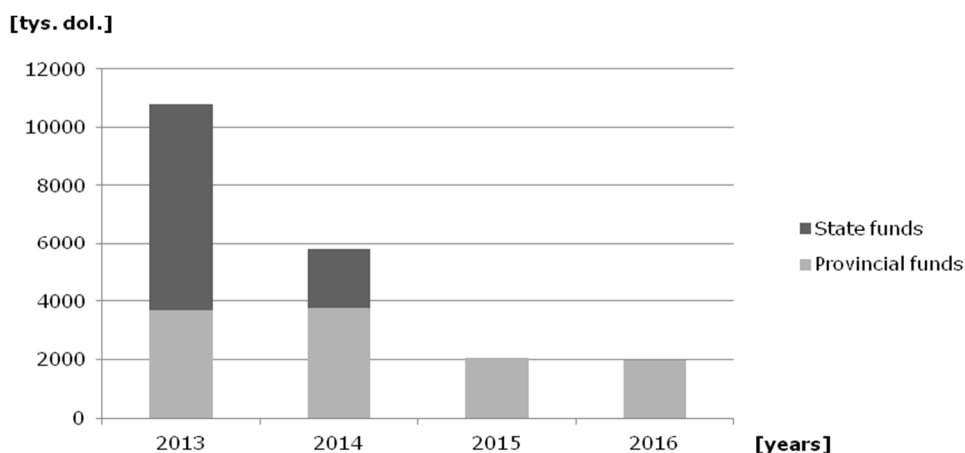
Isolation of transactions concerning the apartments, the price and floor area of which met "Flat for the Young" Program conditions and which were concluded in the first quarter of 2017, enabled defining the opportunities for partaking in the Program in individual Polish cities. The largest percentage of transactions that met the terms of the Program was noted in Lodz – 72 % of all the transactions recorded on the primary market and 63 % on the secondary market. The potential buyers of flats in Poznan and Gdansk were slightly worse as, respectively, 52 % and 46 % of transactions concluded on the primary market and 26 % and 22 % of transactions on the secondary market concerned flats with a unit price below the set limits. As regards the availability of the premises that met the program conditions, the worst situation was in Warsaw – 16 % of all the transactions concluded on the primary market and only 4 % of the apartments sold on the secondary market met the requirements of the program.

According to the data revealed in Figure 5, the city of Lodz remained in the first position in 2015 due to the number of apartments within the set limit with the result of 73 % of apartments on the primary market and 82 % – on the secondary market. Krakow (with 13 % on the primary market) and Warsaw (with 7 % on the secondary market) ranked last. The situation in Krakow improved in the fourth quarter of 2016, when 21 % of the apartments could already be bought with the use of co-financing under the analysed government program. In Warsaw, however, the situation deteriorated and the number of flats within the limit was only 14 % on the primary market, and 6 % – on the secondary market. At the end of 2017, the residents of Lodz could count on the subsidies under the program for only 60 % of all the apartments on the secondary market.

The implementation of the "Apartment for the Young" program affected the prices on the housing market. The impact was rather marginal in the cities where the price-per-1m<sup>2</sup> limit was relatively low in comparison to the market prices (Warsaw and Krakow). The prices were mainly driven by the supply-demand relationship. The few flats that qualified for the subsidy found their buyers very quickly in such markets. In these cities – because of the program – the apartment prices decreased in order to adjust to the limit; that is the reason why the number of people who bought apartments at the price that was within the limit and did not need the subsidy increased substantially.

## Instruments of housing development in Ukraine

Housing support programs also operate in Ukraine. The Support Fund for Youth Housing was established by private housing estates in 1992 in order to meet the objectives. The Fund became a state organization in 1997; it is supervised by the Ministry of the Family and it operates by means of the state budget and voivodeship budgets.



**Source: authors' study based on the Report on the Results of Activities of the State Support Fund for Youth Housing in years 2014-2015, (2016). PFWMBM, Kiev, p. 9**

**Fig. 6. The structure of financial resources of the preferential loan program in 2013 – 2016 (thou. USD)**

The data contained in Figure 6 above show that the pool of funds allocated to co-financing young people decreased in 2015 and 2016 to 20 % when compared to 2013. The state's participation also decreased over these years to reach the level of USD 0 in 2015 and 2016 and was fully replaced by the voivodeship budgets. In 2015, over USD 10 million were invested in housing construction, out of which 76 % was from voivodeship budgets and 24 % – citizens' contributions.

The activities undertaken by the state and aimed at providing youth with their own apartment declined. The number of people who benefited from the program decreased threefold. This was mainly due to the limited resources earmarked for supporting programs. Poor financing of the banking sector was the reason why the number of buildings constructed in 2015 decreased by 35 as compared to the previous year; in 2016 only 31 buildings were built.

Table 2

### Effects of the implementation of the government support program in the field of residential construction in Ukraine in 2014 – 2016

Item to compare / Year	2014	2015	2016
Number of families covered by the program	1729	584	454
Number of buildings put into use	73	38	31
Number of flats / Total area	7080 / 483.8 thou. m <sup>2</sup>	4933 / 347.5 thou. m <sup>2</sup>	4152 / 295.4 thou. m <sup>2</sup>

**Source: authors' study based on the Report on the Results of Activities of the State Support Fund for Youth Housing in 2014-2015, (2016). PFWMBM, Kiev, pp. 10**

In 2014 – 2016, 142 residential buildings were put into use within the residential construction program (73 in 2014, 38 in 2015 and 31 in 2016). The total number of those apartments amounted to 12 013, (7 080 in 2014 and 4 933 in 2015). In 2014, 203 flats were sold to households in the form of preferential loans under the government program; in 2015 - 171 flats. As at 17.05.2017, the number of submitted questionnaires concerning the receipt of a long-term preferential housing loan was 7 713, out of which 6 743 questionnaires met all the program requirements. The total number



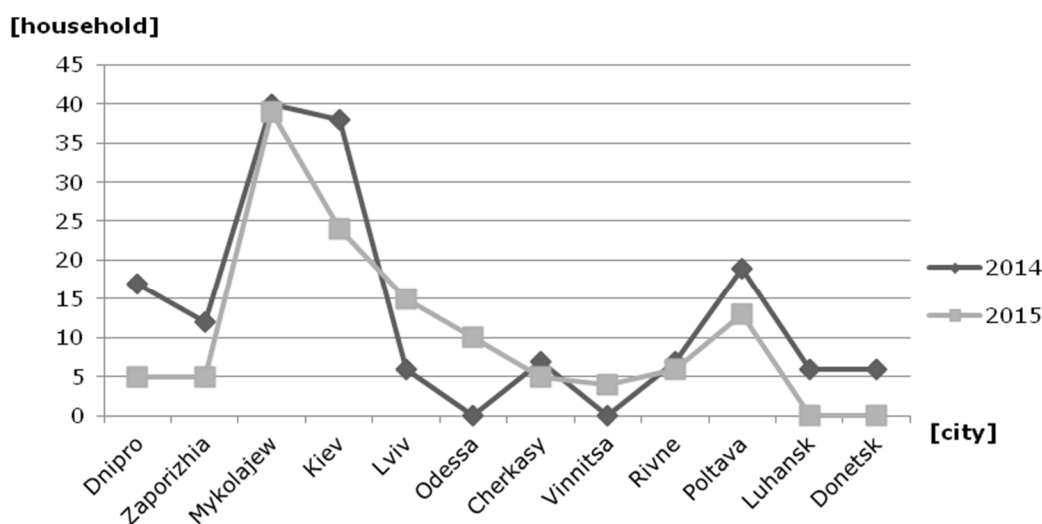
of long-term preferential loans concluded between the Fund and citizens amounted to 374 for a total amount of about USD 13 million. In 2014, 203 loans for the amount of USD 5.2 million were granted, whereas in 2015 – 171 loans for USD 7.8 million.

The cost structure of the granted loans was as follows:

- USD 1.5 million – state budget;
- USD 6.25 million – budgets of voivodeships;
- USD 5.25 million – own costs of the State Support Fund for Youth Housing.

The cities of Mykolajev, Kiev, Lviv and Poltava are the leaders in Ukrainian cities with respect to the size of the families who received apartments under the analyzed project. The situation remained unchanged until 2016.

The data contained in Figure 7 show that in cities such as Odessa and Vinnytsia the number of families increased, whereas in Kiev, Dnipra, Zaporozhye and Poltava, the situation was reverse. In 2015, the program was not implemented in the cities of Lugansk and Donetsk as the anti-terrorist operation was being carried out there at the time.



**Source: authors' study based on the Report on the Results of Activities of the State Support Fund for Youth Housing in years 2014 – 2015, (2016). PFWMBM, Kiev, p. 11**

**Fig. 7. The number of households which entered into the long-term preferential loan scheme in selected cities of Ukraine in 2014 – 2015**

According to the data gathered by the information-analytical portal "Stolicznaja Niedwizymosc", there was a slight increase in the prices of new apartments and a drop in the prices on the secondary market in Kiev in March 2017. In particular, the average prices of apartments on the primary market increased by 0.1 % to UAH 23,340 per 1m<sup>2</sup> in March 2017 in comparison to those in February 2017 but they decreased by 1.3 % when compared to March 2016. The largest increase in the average prices on the primary market referred to the case of "premium" class apartments (increase by 1.2 % to UAH 46.39 thou. per 1 m<sup>2</sup>) and "comfort" class apartments (increase by 1 % to UAH 21.89 thou. per 1m<sup>2</sup>). A slight increase in the prices was also noticed in the segment of "economy" class apartments (increase by 0.9 % to UAH 16.78 thou. per 1m<sup>2</sup>) and "business" class apartments (increase by 0.02 % to UAH 29.91 thou. for 1 m<sup>2</sup>). The biggest increase in the house prices was recorded in such regions of Kiev as Darnytsia, Podilski and Solomenski, and the largest drop in the prices in the regions of Dniprowski, Obołonski and Swiatoszyński.7.

Average housing prices on the secondary market decreased by 1.6 % to UAH 34.42 thou. per 1m<sup>2</sup> in March 2017 in comparison to the prices in February 2017. The average price of a 1-room flat

in Kiev accounted for UAH 31.37 thou. per 1m<sup>2</sup> in March 2017 (a decrease by 2.5 % when compared to February 2017), 2-room flat – UAH 35.54 thou. per 1m<sup>2</sup> (decrease by 1.6 %), 3-room flat – UAH 35.25 thou. per 1m<sup>2</sup> (decrease by 0.9 %), 4-room flat – UAH 39.11 thou. per 1m<sup>2</sup> (decrease by 1 %).

### **Concluding remarks**

The research shows that:

- 1) There were many potential buyers of residential real estate both in Poland and Ukraine in the analysed period of time. The majority of the people, however, were unable to finance the purchase of real estate with their own funds – the only option was to take out a housing loan.
- 2) The demand for housing loans in the analysed period was higher in Poland than in Ukraine. The main reason for that was a different level of remuneration in both these countries. Ukrainians were afraid of the unstable economic situation. The demand side was represented by the people who received remuneration in foreign currencies. It was connected with a very high interest rate on housing loans. In Poland, the housing loans were more popular and – most importantly – more accessible. The „AfY” program was successfully implemented in Poland. It was the most popular program among Poles under the age of 35. The program implementation influenced the prices on the housing market. In some Polish cities, the "AfY" program contributed to the reduction of home prices on the market. The research carried out for the purposes of this article has shown that the government support program for the purchase of apartments was successfully completed in Poland.
- 3) While analyzing the results of the implementation of the Ukrainian state housing loan support program, it can be concluded that 738 preferential long-term loans for young families were granted in 2014 – 2016 for a total amount of USD 336.3 million including: in 2014 – 253 long-term preferential loans for young families of up to UAH 84 million, in 2015 - 231 preferential loan in the amount of UAH 123.7 million, in 2016 – 254 preferential loans in the amount of UAH 128.6 million. At the expense of the state budget, 74 preferential loans were granted in 2014 to the amount of UAH 24.3 million; at the expense of local budgets – 435 preferential loans for a total amount of 195 600 000 (out of which 116 loans for a total amount of UAH 36 600 000 in 2014, 140 loans for a total of UAH 64 700 000 in 2015 and 179 loans worth USD 94.3 million in 2016).
- 4) Therefore, neither the expected results of the national program implementation nor the funds for providing housing for young people were achieved in the years of 2014 – 2016. The main strategic objectives of the state program, namely, providing affordable housing for young families and creating conditions for the development of building for the youth remained unfulfilled. The program was not effective enough and had no impact on the residential real estate market; it did not bring the expected outcomes because of its limited budget and it contributed to the program beneficiaries' purchase of their own apartments on a minor scale only. The program was constantly underfunded by both the state budget and the local budgets since the very beginning of its implementation. As at 01.01.2017, according to the data of the State Youth and Family Service, the service of long-term government loans aimed at young families and single young citizens accounted for only 8.7 % of the assumed Program indicators in 2013 – 2017.

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