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The most important threats to economic policy, financial system stability and PLN credibility – results of the 12th edition of the forecast consensus of the European Financial Congress

Introduction

The forecasting consensus of the European Financial Congress is based on the opinions of 27 experts and prominent macroeconomists received by December 8, 2023.

In this report, we focus on measures aimed at sustainable economic development and financial stability. Therefore, we traditionally begin our report with consensus macroeconomic forecasts made by who we believe are the best macroeconomists, then we present the most significant threats to the Polish economy, the stability of the financial system and the credibility of PLN, along with the probability of their occurrence. Finally, we present recommended actions.

In the first stage, each Expert presented the three most important threats in each area in his opinion. On the basis of these indications, we selected a list of those most frequently recurring, and in the second stage, each survey participant was to assess, on the one hand, the likelihood of the occurrence of a given phenomenon and, on the other hand, the importance (significance) of each threat.

Based on the threats identified earlier, each expert rated the probability of a given phenomenon on the one hand, and the importance (significance) of each threat on

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the other. Each expert had a total of 100 points to distribute among the hazards. In addition, he assigned a probability of occurrence rating to each.

A graphical representation of the experts' opinions is presented in the Risk Maps, where the diameter of the circles representing each type or risk is the sum of the products of the weight and the probability of occurrence of a given risk.

1. Forecasts of economic growth and its components

The year 2024 will be marked by a marked acceleration in GDP growth, to around 2.8% y/y, from 0.5% y/y in 2023. The primary driver of growth will be an acceleration in personal consumption, with a relatively modest acceleration in investment.

The dynamics of private consumption will accelerate from minus 0.7% y/y in 2023 to 3.8% in 2024. A similar rate of growth in private consumption will continue in the next two years. The primary reason for the acceleration of private consumption will be the marked deceleration of inflation, translating into an increase in the real income stream of private sector workers, as well as the significant scale of pension valorization, the significant scale of wage increases in the public sector, and the increase in the minimum wage. In addition to these factors, there is a marked improvement in consumer sentiment indicators, which means that the money stream going to households will be spent more willingly than in previous quarters, dynamizing consumption and GDP as a whole.

Gross fixed capital formation will see a decline to 2.4% y/y in 2024, following a 7.2% y/y increase this year. This will be compounded by the still high level of uncertainty among entrepreneurs (especially medium-sized and smaller ones), the still high cost of financing investments due to high inflation and interest rates, and the „breakthrough" of the EU financial perspective resulting in a very small scale of investment in the local government sector in 2024. Experts expect a more pronounced acceleration of investment in 2025, to 5.4% y/y – when the level of interest rates will already be lower and when European funds from the new perspective should begin to flow in. It is worth noting that investment dynamics in the future could be even higher if the new government managed to convince investors and the business sector that they will not be surprised by sudden changes in legal and tax regulations, that new regulations will be subject to a thorough consultation process, and that a sufficiently long *vacatio legis* will be provided to allow good preparation for the introduction of new regulations.

Table 1. Forecasts of economic growth and its components for 2023–2026

<table>
<tr><th colspan="3">DATA</th><th colspan="4">SURVEY RESULTS</th><th rowspan="2">NUMBER OF EXPERTS</th></tr>
<tr><th>Indicator</th><th>Measure</th><th>2022</th><th>2023P</th><th>2024P</th><th>2025P</th><th>2026P</th></tr>
<tr><td rowspan="2">GDP (y/y; %)</td><td>average</td><td rowspan="2">5.3</td><td>0.5</td><td>2.8</td><td>3.4</td><td>3.6</td><td rowspan="2">[10]</td></tr>
<tr><td>deflection</td><td>0.2</td><td>0.5</td><td>0.1</td><td>0.3</td></tr>
<tr><td rowspan="2">Domestic demand (y/y; %)</td><td>average</td><td rowspan="2">5.2</td><td>-2.1</td><td>3.3</td><td>3.7</td><td>3.6</td><td rowspan="2">[10]</td></tr>
<tr><td>deflection</td><td>1.1</td><td>1.5</td><td>0.2</td><td>0.3</td></tr>
<tr><td rowspan="2">Individual consumption (y/y; %)</td><td>average</td><td rowspan="2">5.2</td><td>-0.7</td><td>3.8</td><td>3.9</td><td>3.5</td><td rowspan="2">[10]</td></tr>
<tr><td>deflection</td><td>0.2</td><td>0.9</td><td>0.3</td><td>0.7</td></tr>
<tr><td rowspan="2">Gross outlays on fixed assets (y/y; %)</td><td>average</td><td rowspan="2">4.9</td><td>7.2</td><td>2.4</td><td>5.4</td><td>6.6</td><td rowspan="2">[10]</td></tr>
<tr><td>deflection</td><td>0.9</td><td>2.4</td><td>1.4</td><td>1.2</td></tr>
</table>

Source: Statistics Poland, https://bdm.stat.gov.pl/, European Financial Congress, 2023.

2. Labor market situation

Experts expect a slight slowdown in the rate of wage growth in the economy to 10.4% y/y in 2024 from 12.6% y/y in 2023. It is worth noting that the slight slowdown in nominal wage growth will be accompanied by a marked decline in inflation, which will translate into an increase in real wages, which in turn will have positive consequences for private consumption. Survey respondents expect the number of people employed in the national economy to grow by 0.5%, following a 0.4% increase in 2023. It is worth noting, however, that growth in the number of employed will become increasingly difficult, due to the shrinking labor pool and the record-low unemployment rate – the lowest (*ex aequo* with the Czech Republic) in the entire EU.

Experts expect a very slight decline in the unemployment rate, to 2.8% in 2024 and 2.6% in 2026 (after 2.9% in 2023). The relatively small expected drop in the unemployment rate is due to the fact that it is already the lowest in the European Union, and it is difficult to count on a significant drop from these levels. It is worth noting that in large cities the unemployment rate is already below 2% and therefore clearly below the natural unemployment rate. This is good news from the point of view of workers, but at the same time such a low labor pool will be a significant constraint on further economic growth in the coming years, especially since investment has not been high for many years now. The demographic challenges are behind the increasingly frequent call in expert recommendations for the development of a comprehensive immigration and assimilation policy.

Table 2. Forecasts of the situation on the labor market until 2026

DATA			SURVEY RESULTS				NUMBER OF EXPERTS
Indicator	**Measure**	**2022**	**2023P**	**2024P**	**2025P**	**2026P**	
Unemployment rate (LFS; end of year; %)	average	2.9	2.9	2.8	2.7	2.6	[8]
	deflection		0.1	0.2	0.3	0.4	
Salaries in the national economy (y/y; %, nominal)	average	12.3	12.6	10.4	7.6	6.7	[10]
	deflection		0.4	1.6	1.4	1.8	
Employed in the national economy (as of the end of the period; y/y; %)	average	1.4	0.4	0.5	0.7	1.0	[8]
	deflection		0.4	0.6	0.4	0.5	

Source: Statistics Poland, https://bdm.stat.gov.pl/, European Financial Congress, 2023.

3. Inflation rate, public finance sector

According to EKF experts' forecasts, 2024 will be marked by a clear deceleration of average annual inflation, from 11.6% y/y in 2023 to 5.8% y/y in 2024. At the same time, forecasts show that even at the end of next year (6.1% y/y), inflation will remain clearly above the upper limit of the MPC's inflation target (3.5%). The average of analysts' expectations is that inflation will approach the upper limit of the target only at the end of 2025 (3.6%) and will go below it at the end of 2026 (3.2%) – but will still fall short of the inflation target (2.5%) during the forecast period.

Respondents expect the National Bank of Poland's reference rate to fall from 5.75% at the end of 2023 to an average of 5.3% at the end of 2024.

Experts forecast the deficit of the public finance sector – calculated according to the EU methodology – at 4.9% of GDP in 2024 after a deficit of 5.4% of GDP in 2023. Such a high deficit in 2024, despite the projected GDP growth of 2.8%, implies a significant scale of imbalance in public finances, all the more so since for 2025 the surveyors forecast a deficit of 4% of GDP with GDP itself growing by 3.4% y/y. Significant public finance sector deficits will mean a buildup of debt: respondents forecast the level of public finance sector debt calculated in accordance with the EU methodology at 53.3% in 2024 and 54.6% of GDP in 2025.

Experts expect a continuation of the trend of strengthening of the zloty against the two most important currencies for our economy, that is, the euro and the dollar. With regard to the EURPLN exchange rate, the average annual rate is expected to fall to 4.36 in 2024 from 4.53 in 2023.

Likewise for USDPLN, the average annual rate is expected to fall to 3.97 versus 4.19 in 2023.

Table 3. Forecasts of inflation, currencies and the public finance sector to GDP

DATA			SURVEY RESULTS				NUMBER OF EXPERTS
Indicator	Measure	2022	2023P	2024P	2025P	2026P	
Inflation (CPI; annual average; %)	average	14.4	11.6	5.8	4.3	3.3	[10]
	deflection		0.1	0.9	0.5	0.4	
Inflation (CPI, XII; %)	average	16.6	6.8	6.1	3.6	3.2	[9]
	deflection		0.3	1.3	0.4	0.5	
EUR/PLN (annual average)	average	4.7	4.5	4.4	4.3	4.3	[7]
	deflection		0.0	0.1	0.1	0.1	
EUR/PLN (year-end)	average	4.7	4.4	4.3	4.3	4.4	[5]
	deflection		0.0	0.1	0.1	0.1	
USD/PLN (annual average)	average	4.5	4.2	4.0	3.9	3.9	[7]
	deflection		0.0	0.1	0.1	0.2	
USD/PLN (year-end)	average	4.4	4.0	3.9	3.8	3.8	[5]
	deflection		0.1	0.1	0.2	0.2	
Reference rate (year-end; %)	average	6.8	5.7	5.3	4.4	4.1	[10]
	deflection		0.1	0.4	0.5	0.6	
Public finance sector result according to EU methodology (% of GDP)	average	-3.7	-5.4	-4.9	-4.0	-3.4	[9]
	deflection		0.4	0.5	0.4	0.3	
Public finance sector debt according to EU methodology (% of GDP)	average	49.3	50.7	53.3	54.6	54.1	[7]
	deflection		2.6	2.5	2.9	3.8	
Balance on the current account of the balance of payments (% of GDP)	average	-2.4	0.6	-0.5	-0.4	-0.7	[9]
	deflection		0.4	1.3	1.1	1.2	

Source: Statistics Poland, https://bdm.stat.gov.pl/, European Financial Congress, 2023.

4. The most important threats to economic prosperity in the 2026 outlook

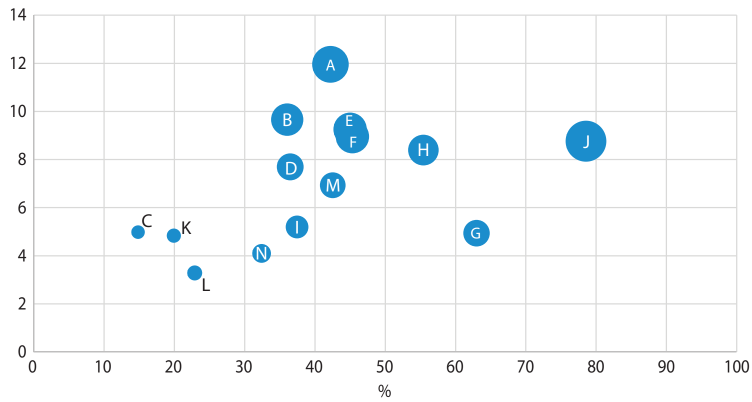
The threat for which the total weight is greatest in the opinion of the specialists surveyed is the perpetuation of high inflation and high interest rates, severely hampering growth (stagflation scenario) – and this threat is indicated as the most important for the fourth consecutive time. It was indicated by 93% of respondents. It synthesizes the conglomerate of problems and threats to the economy generated by very high, and possibly perpetuating inflation above acceptable levels.

The next places, similar in weight, were occupied by the following threats:

- Insufficient investment, limiting growth potential,
- An inconsistent policy mix, including relatively expansionary fiscal policy and a lack of clear monetary policy direction,
- unfavorable demographic structure,
- The low rate of energy transition combined with the high energy intensity of the economy and the risk of rising energy prices,
- The risk of an escalation of the war in Ukraine and
- Weakening global economy, risk of recession in major economies.

In summary, the most important risk in the opinion of specialists is the risk of perpetuating the stagflationary scenario, while the risks slightly further down the list have relatively similar weights.

Chart 1. The most important threats to Poland's economic prosperity in the 2026 outlook



A	Persistence of high inflation and high interest rates, strongly inhibiting growth (stagflation scenario).
B	Risk of escalation of war in Ukraine.
C	Conflict with the EU – risk of delayed and/or limited inflow of funds.
D	Weakening global economy, risk of recession in major economies.

E	Inconsistent policy mix, including relatively expansionary fiscal policy and lack of clear monetary policy direction.
F	Insufficient investment, limiting growth potential.
G	The cost of an election year for the economy – additional burden on public finances.
H	Low pace of energy transition combined with high energy intensity of the economy and risk of rising energy prices.
I	Deteriorating state of public finances and their transparency.
J	Unfavorable demographic structure.
K	Destabilization of the domestic banking sector.
L	Increase in state interventionism undermining the dynamism of the market economy.
M	Global risk of conflicts outside Europe, mainly in the Far East.
N	The exodus of workers, particularly from the technology and financial sectors, to more developed economies.

Source: European Financial Congress, 2023.

5. The most important threats to the stability of the financial system in the 2026 outlook

The November/December assessment of risks to the stability of the financial system shows a marked reduction in the strength of key risks and the likelihood of their materialization compared to expert assessments in June this year.

Nevertheless, the biggest threat to the financial system remained the legal risks of mortgages. All the specialists interviewed highlighted risks related to the invalidity of contracts, lack of remuneration for the use of capital, the CJEU ruling on CHF-denominated loans, and risks related to WIBOR-based loans.

According to nearly 90% of experts, a significant threat to the stability of the financial system is the deterioration of public finances combined with expansionary economic policies. This is the second most important factor in terms of both importance and likelihood of occurrence. It should be noted, in particular, that the importance of this factor has increased compared to the survey conducted in June this year.

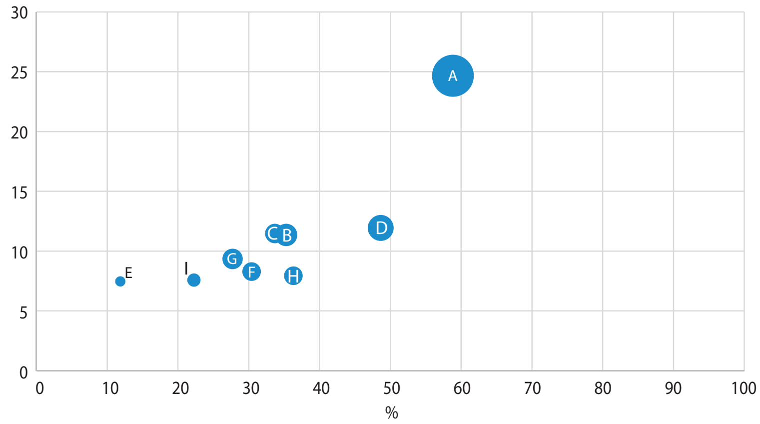
In third place was singled out the risk of deepening state interference in the banking system. In the opinion of 93% of experts, interference manifested in the overdependence of selected banks on the state and excessive financing of the state budget by banks raises the costs and risks of the banking sector. It should be noted, however, that the threat is now priced much lower than it was as recently as June this year.

In terms of financial stability risks, the threat of deterioration in the quality of the loan portfolio – the first factor directly influenced by the banking sector itself – is also falling. The risk is considered in terms of the negative consequences of rising interest rates, weakening currency, unstable economic situation and worsening growth prospects.

In this context, it is still important to note the risks associated with the lack of a well-considered and consistent macroprudential policy, with the probability of this risk now nearly 10 p.p. lower than six months ago.

It is also important that experts do not see a significant threat in the form of the risk of bankruptcy of a large bank in Poland and the risk of contagion caused by the problems of large financial institutions in the US and Western Europe.

Chart 2. The most important threats to the stability of the Polish financial system in the 2026 perspective



A	Legal risks of mortgages (invalidity of contracts, lack of remuneration for use of capital, CJEU ruling on CHF, risks related to WIBOR-based loans).
B	Deepening state interference in the banking system raising the costs and risks of the banking sector (excessive dependence of selected banks on the state, excessive financing of the state budget by banks).
C	Deterioration in the quality of the loan portfolio due to rising interest rates, weakening currency, unstable economic situation and worsening growth prospects.
D	Deterioration of public finances combined with expansionary economic policies.
E	Risks associated with the failure of a major bank.
F	Growing inconsistency in economic and regulatory policies, increasing banks' risk aversion.
G	Lack of thoughtful and consistent macroprudential policies.
H	Inconsistency and unpredictability of regulation.
I	*Contagion* risk caused by problems of large financial institutions in the US and Western Europe.

Source: European Financial Congress, 2023.

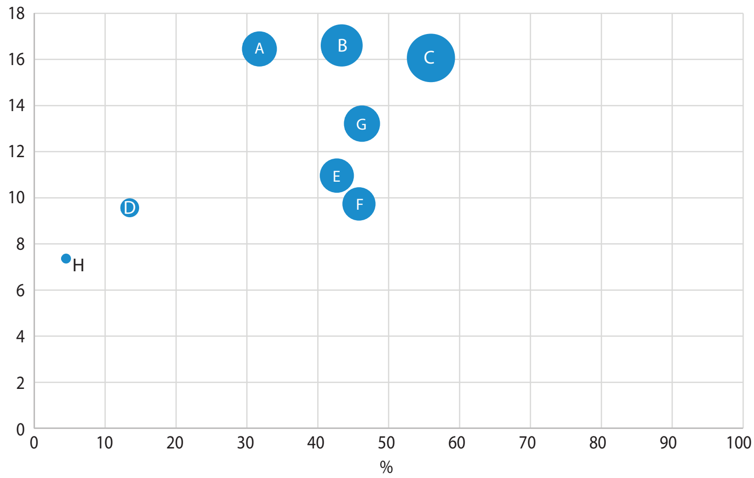
6. The most important threats to the credibility of the zloty in the 2026 perspective

Survey respondents point to three top threats with very similar weights:

- Persistence of inflation clearly above the EU average, accompanied by the persistence of negative real interest rates.
- Risk of capital outflows due to an increase in geopolitical (including a prolonged conflict in Ukraine) and macroeconomic risks.
- Low effectiveness of monetary policy and its inconsistency with fiscal policy, low credibility of the central bank and its growing politicization.

At the same time, it is worth noting on the significant decrease in the weight of risks related to tensions on the Polish-EU line and the risk of "Polexit."

Chart 3. The most important threats to the credibility of the zloty in the 2026 outlook



A	Risk of capital outflows due to increased geopolitical risks (including the protracted conflict in Ukraine) and macroeconomic.
B	Persistence of inflation clearly above the EU average, accompanied by the persistence of sharply negative real interest rates.
C	Low effectiveness of monetary policy and its inconsistency with fiscal policy, Low credibility of the central bank and its growing politicization.
D	Conflict with the EU – risk of delayed and/or limited inflow of funds.
E	Risk of election promises destabilizing public finances.
F	Expansionary fiscal policy, translating into high deficits, Increase in borrowing needs and increase in public debt.
G	Deteriorating state of public finances.
H	The government's persistent anti-EU narrative and the risk of Polexit.

Source: European Financial Congress, 2023.

7. The most important recommended areas of action in Poland's economic policy

Consolidation of public finances and increasing their transparency[1]

Poland's public finances have become increasingly opaque in recent years, while at the same time public sector debt has increased significantly, and the scale of the planned debt increase planned in the 2024 budget is nominally the highest in history, despite the expected solid GDP growth. Experts recommend improving the transparency of public finances, defining a credible medium-term path for deficit reduction and its consistent implementation, and changing the structure of public finance spending by reducing social spending, while increasing spending on improving the quality of public services and on pro-development goals.

Within this area, experts recommend:

- Improving the transparency of public finances, the return of fiscal rules, bringing all public spending under parliamentary control;
- Reducing the deficit of public finances;
- Defining a credible medium-term path for the consolidation of public finances and its implementation;
- Changing the structure of public spending by reducing social spending, increasing spending on pro-development goals, including improving the quality of public services both through increased spending in these areas and measures aimed at improving efficiency;
- Ensuring a consistent *policy mix*.

Implement an effective anti-inflation policy

Experts note the ineffectiveness of the anti-inflation policy pursued in recent years, while their forecasts indicate that by the end of 2026 inflation will be in the upper band of the inflation target, failing to reach the target itself. Such high inflation causes significant erosion of savings, disrupts the market process of asset allocation and hinders investment, through the high cost of financing it. In order to lower inflation permanently, experts call for restoring the credibility of the NBP institutions and confidence in monetary policy, maintaining positive real interest rates until inflation descends to the target, and ensuring a consistent policy mix between monetary and fiscal policy.

Under this policy, experts propose:

- Maintaining positive real interest rates until inflation goes down to target;
- Reduce the scale of financial market over-liquidity;
- Restoring the NBP's credibility and confidence in monetary policy;
- Protecting household savings.

[1] More widely: Center for Strategic Thought, https://www.efcongress.com/aktualnosci/raport-stabilny-i-przejrzysty-budzet-pod-kontrola-obywateli-plan-naprawczy/.

Stimulating investment and innovation

The systematic decline in the rate of investment relative to GDP for many years is a worrying phenomenon in the context of, among other things, demographic challenges or technological advances taking place on a global scale. In this context, experts call for measures to stabilize legislation (including tax legislation in particular), to make regulations more consistent, and to ensure that any newly introduced regulations are fairly consulted and provide sufficient time to prepare their implementation. Experts also point to the need to deregulate the economy, take measures to stimulate business innovation and stimulate the development of the new technology sector. Experts point out that many of the tools for stimulating investment are already implemented, but need to be „refreshed", to check whether their parameters provide a guarantee of their effective operation.

Under this policy, experts propose:

- Consistent and stable legislation including tax legislation;
- Deregulation of the real economy;
- To undertake effective policies to stimulate business innovation;
- To stimulate the development of the new technology sector and create favorable conditions for the inflow of foreign capital into the sector;
- Reforms to improve the labor market including increased labor force participation and migration policies;
- Intensification of activities in the use of EU funds, including the end of the dispute over the rule of law and the rapid release of funds from the NIP.

Accelerating the energy transition

The challenge of energy transition is one of the most important for the economy: on the one hand, much of the current generation apparatus is obsolete and will have to be shut down in the coming years for technological reasons, and on the other hand, the national energy mix is not in line with, for example, European plans to reduce CO2 emissions, and such a structure of energy sources will not only translate into high energy costs, but will also limit the competitiveness of domestic companies.

In this context, experts call for the urgent development and subsequent implementation of a comprehensive energy transition plan, financed as widely as possible by European funds and private capital (regulatory facilitation, investment incentives), with safeguards for the poorest citizens.

Under this policy, experts propose:

- Preparation of a comprehensive plan for the energy transition in Poland;
- Actions to quickly achieve the energy transition through, among other things, rapid unlocking of NIP funds, regulatory facilitation and measures to encourage private sector involvement in and financing of the transition;

- Restructuring of the energy sector based mainly on EU and private Polish and foreign capital;
- Carry out the energy transition in a way that respects and protects the poorest citizens;
- Energy diversification – nuclear power.

Recommended measures to restore balance and self-reliance to local governments (based on the Local Government Finance Congress and the European Local Government Forum)

The experience of political transformation proves that local self-government has proven to be an effective, efficient and proven institution that provides basic public services. Therefore, we recommend launching the process of restoring the subjectivity and financial independence of local governments and reversing the centralization of competencies. The process of centralization of the state and growing political clientelism among local government officials caused primarily by declining own revenues should be reversed to better meet the needs of Poles. This process does not have to be tied exclusively to regulatory changes, including statutory ones, although such will certainly also be needed. The new state administration should take steps in this direction in many places and scopes.

In recent years, local self-government has been significantly weakened in the undisguised process of centralizing the state and reducing its capacity and competencies. This applies to the finances, regulation and independent decision-making of local government at the municipal, district and provincial levels.

We have seen a progressive process of reducing own revenues and general subsidies in favor of grants and non-transparent state investment programs, in which the chances of subsidies depended directly and to a great extent on the political colors of the local governor. Regulatory and competence changes led to a reduction in the independence of local governments. Local governments lost the ability to decide in their own affairs, as their competencies and authority were taken over by agencies and central administration entities, such as the Polish Water Authority, the curators' offices and ministries.

Meanwhile, local government proved to be more effective and efficient after 1990 in providing the public services it was mandated to provide to residents.

The following list of measures is not exhaustive of all the areas that need to be changed to restore local governments' agility and ability to act effectively and efficiently. It is limited to financial matters in particular.

In the short term, we advocate taking the following actions:

- Provide local governments with financial compensation in 2024 for lost own revenues caused by the changes in income taxes based on fair and transparent distribution of subsidies;
- Giving real authority over the WFOSiGW to the regions through the decisions of the Minister of Climate and Environment (pending statutory changes restoring

the state of 2015), so that they are real tools for regional authorities in carrying out regional development policy;
- Restoration of authority over pricing of public goods provided by municipalities, e.g., water and sewage services, district heating;
- in the case of central programs being launched (e.g., by the BGK), the introduction of clear, transparent and unambiguous criteria for granting support to local governments.

In the long term:

- Preparation and implementation of a new law on local government revenues taking into account, among other things, equalization of revenues based on the different unit costs of public services in different local governments, environmental subsidy. Overarching goal: stability, predictability and adequacy of local government finances to the services provided;
- Changes in local taxes, among other things, allowing differentiation of property tax rates depending on the provisions of local law, i.e. zoning plans.

Support for sustainable housing development

As part of the sustainable housing development program, we specifically call for:

I. Reduction of legal risks associated with housing loans.
II. Launch of the domestic mortgage bond market.
III. Making the “premises-for-land” program more realistic.

Ad I. Reduction of legal risks associated with housing loans[2]

1. Develop a template for a standard housing loan agreement and agree on it with all stakeholders.
2. Obtain opinions from regulators and the Supreme Court confirming the pattern’s compliance with applicable laws.
3. Subsequently, giving the model statutory status.

Housing loans are taken out for several decades. Experience teaches that a loan agreement that was not questionable at the time of conclusion can be challenged years later by the consumer and declared invalid by the court. The consequence of the court’s decision is the way the parties to the contract are settled, which generates huge losses for the banks and, above all, their decapitalization. This situation leads to a drastic reduction in the lending activities of banks, especially the financing of large infrastructure projects of the state, from which all citizens suffer, and in a broader perspective – the financial stability of the state.

[2] More widely: Center for Strategic Thought, https://fundacjacms.pl/nowy-ksztalt-rynku-kredytow-mieszkaniowych/.

It should not be forgotten that the risk of challenging a contract can also prove costly for the consumer. Contrary to popular belief, it is not the customer who acts against the bank, but a law firm does on his behalf. The cost of this service is borne by the consumer. In the best case scenario, that is, a win against the bank, the cost of the service diminishes the client's profit. In the event of a loss, the customer not only gains nothing, but still has to bear all the costs. These losses can be large.

The actual reason for undermining contracts is the unfavorable materialization of market risks for the consumer, not legal defects in contractual provisions. Initially, the dispute between customers and banks and the undermining of credit contracts concerned only foreign currency loans. Now, there are more and more lawsuits from consumers challenging contracts for gold loans, in addition to those taken out in recent years. The courts cite, among other things, so-called significant views on the matter issued by the President of the OCCP, in which he deems the contractual provisions that are the subject of the lawsuit against the bank to be impermissible.

Despite the courts declaring thousands of home loan contracts invalid, the Office limits itself to challenging contractual provisions as inconsistent with consumer law or good morals. Unfortunately, these negative decisions have not once been accompanied by proposals for contractual clauses that comply with consumer law. As a result, the OCCP's Register of Prohibited Clauses counts thousands of items, while a complementary register of permitted terms has never been created. By the same token, a bank granting a home loan in which it does not use any of the prohibited clauses still faces the risk of invalidating the contract for that loan in the future.

In the absence of any list of permissible provisions, it is necessary to use a model home loan contract that minimizes legal risks, as is done in many developed countries. Such a template should give both parties a guarantee that the contract they have entered into will not be challenged in the future.

The benchmark must be acceptable to all, so its development will in practice be a long negotiation process, in which three parties must participate: the consumer, the bank and the court.

The first proposal has already been prepared and is currently being reviewed by regulators: UOKiK and UKNF. The draft thus agreed upon should also be reviewed by the Supreme Court's Civil Chamber.

It is important to be aware that the failure of this process will signal that in the Polish reality, providing housing loans to consumers, is very risky, which will increase the cost of credit and reduce housing financing.

Ad II. Launching a domestic mortgage bond market[3]

Mortgage bonds can provide an instrument to stimulate long-term savings, as they are the safest long-term bonds-secured by the healthiest mortgages. The financial crises have confirmed the reliability of mortgage bonds. A report by the UKNF even formulated the thesis that "the mortgage bond has basically turned out to be the winner of the crisis, as its advantages could not be so well presented until now" (Report on the work of the Group on the issuance of mortgage bonds by banks, UKNF 2013). It would be difficult to find a better alternative for the safe placement of savings than mortgage bonds.

A mortgage bond is a special secured bond that is exceptionally safe for the purchaser. In the more than 250-year history of mortgage bond issuance, there has been no case of default, despite many crises. Also, the recent global financial crisis proved that it is the only instrument, providing continuity of long-term and low-cost financing when the markets for other similar debt instruments (MBSs, ABSs) are in trouble.

The concern of politicians is now only for borrowers (credit vacations) while the several times larger population of depositors feels cheated. The rich are putting their savings in real estate, increasingly outside Poland. Poorer people (the average retail savings balance in banks is estimated at PLN 36,000) have no such alternative. There are also no REITs on the Polish stock market due to the lack of an appropriate law. Investors can purchase shares in American REITs. An alternative to REITs could be domestic mortgage bonds, which finance the domestic real estate market.

The launch of the mortgage bond market in Poland achieves at least three important goals:

1. provides security for long-term savings which automatically means supporting sustainable development, especially of the real estate market,
2. Increases the stability of the financial system,
3. Increases the credibility of the capital market.

How to launch a mortgage bond market in Poland?

1. Demand should be mainly domestic in the current environment, as the sale of mortgage bonds to foreign investors could increase the excess liquidity of the domestic banking sector and act pro-inflationary.
2. To trigger retail demand you need to:
   - diversify the offer in terms of maturities (5, 6, ... ,10-year);
   - Offer pledge letters of low denomination, such as PLN 1,000;
   - Offer anti-inflation guarantees to buyers.

   Banks could, for example, offer retail customers mortgage bonds bearing interest at a fixed or variable rate at the level of interest rates on current term deposits. Savings placed in mortgage bonds, however, would have additional anti-inflationary guarantees.

[3] More widely: Center for Strategic Thought https://www.efcongress.com/aktualnosci/rekomendacje-ekf2023-rekomendacja-dotyczaca-uruchomienia-rynku-detalicznych-listow-zastawnych/.

3. Demand from institutional buyers, especially banks, can be further created by exempting mortgage bond investments from bank tax, purchases by the NBP, and/or the BGK.

It would be very important for regulators to support investment in mortgage bonds through a cap policy for PPKs, OFEs and FIO/FIZs, as well as Social Security.

In order to guarantee the supply of mortgage bonds, it is necessary for the FSC to impose an obligation on universal banks to close the term gap with debt instruments, particularly mortgage bonds.

Work on launching a mortgage bond market was started this year under the aegis of the UKNF. It would be important to support these activities from the Ministry of Finance and the Warsaw Stock Exchange.

Ad III. Realization of the "premises-for-land" program

We recommend urgent action to increase the supply of housing, in order to:

1. curb the rapid and excessive increase in housing prices caused by additional demand associated with the implementation of the "2% Safe Credit" program;
2. provide social assistance for the uncreditworthy, including immigrants (increasing the pool of public housing).

The fastest way to trigger the supply of housing is currently to offer developers land for development in exchange for housing ("premises for land"). This is because it does not require any legal changes but only a realistic implementation of the Law of December 16, 2020 on the disposal of real estate with "premises-for-land" settlement (Journal of Laws 2021, item 223). It has been "dead" since its enactment, i.e. for three years, and its provisions have so far been used by only one municipality in Poland (Warta Municipality). Not only does the implementation of this concept not require a change in the law, but, more importantly, it costs virtually nothing to taxpayers.

The realization of the right to housing for people beginning their working lives is an important pillar of the policy of sustainable socio-economic development. An important element of this policy is housing preferential loans, which should be continued and developed, also so as not to lose public support. However, preferential lending increases the demand for housing and the limited supply of housing leads to an increase in housing prices.

How, then, to avoid the paradox that public (taxpayer) subsidies for loans cause young borrowers to buy more expensive housing.

The most important thing is the rapid stimulation of housing supply, which would offset the additional demand created by soft loans and the associated price increase. The phase lag of supply in relation to the surge in demand in the real estate market is 2–3 years. This means a rapid increase in housing prices in the next 2 years stimulated by public funds allocated for subsidies to borrowers. It is possible to shorten this period and lower the expected price increase by reducing bureaucracy and excessive paperwork for developers, while developing non-working assets owned by local governments and the State. In addition, important arguments for stimulating the „housing for land" program are:

- Increase the pool of rental housing;
- Support for migration policy;
- Social assistance for those who are not creditworthy.

Ultimately, the "apartment-for-land" program could also include the segregated land of the National Property Stock, the State Forests, the Military Property Agency.

Of course, making the housing-for-land program more realistic should not be the only recommendation for sustainable housing development, but it is a way to quickly address social challenges without involving public money.

Tenders should be stimulated offering undeveloped land planned for residential development in exchange for apartments and/or other properties (e.g., kindergartens, nurseries) built by the developer.

If we assume that the cost of the land is 10–25 percent of the total cost of building an apartment, then upon completion of construction, for example, one in five apartments would be handed over by the developer to the municipality, which transferred ownership of the land.

For developers, this would be an offer similar to the "buy now, pay later" idea, which has been met with enthusiasm in the consumer finance market.

The implementation of the "unit for land" concept makes it possible to build much more and faster and with much lower risk for the developer, and above all without significant start-up expenditures and capital freezes. The municipality, on the other hand, should be interested in the developer getting a building permit quickly, as it will receive more housing units faster and in settlement.

So you can expect a lot of bidding interest from developers.

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