

Poland: Supreme Court stance on FX mortgages mildly PLN positive

The Polish Supreme Court has so far presented a balanced take on the FX mortgage saga. Hence risk of imminent settlements including conversion of credits into PLN has diminished. The market seems to have priced it out as well. Hence we expect a gradual €/PLN decline, on the back of the domestic macroeconomy



Courts rulings so far

The European Court of Justice, which is typically the very pro-consumer, left the FX mortgage dilemma for local courts. This means the Polish Supreme Court should have the key say. So far it has presented a balanced approach, i.e. saying that claims of banks and customers are independent and cannot be met. More importantly, the Supreme Court also defined that the limitation period for counterclaims is calculated from the date of credit annulment not from the date of credit origination. That has important implications for both sides, as banks can still expect capital returns from clients, while clients can still expect that banks return all instalments paid (and not only those from last 10 years). That limits the banks losses significantly.

The Polish Supreme Court has so far presented a balanced approach to the FX mortgage dilemma

The Supreme Court is yet to decide on several other aspects, chiefly whether banks may demand compensation for use of capital if a credit has been invalidated. The term of the ruling is unknown (likely no sooner than June), as the Court requested opinions from the National Bank of Poland, KNF, etc. within 30 days. Given the past experiences, we expect another balanced ruling. This both limits potential losses for the banking sector (based on consensus of brokerage houses) to about PLN30bn and discourages banks offering mass settlements (including FX conversions, effectively selling PLN for CHF) anytime soon.

Banks FX hedges

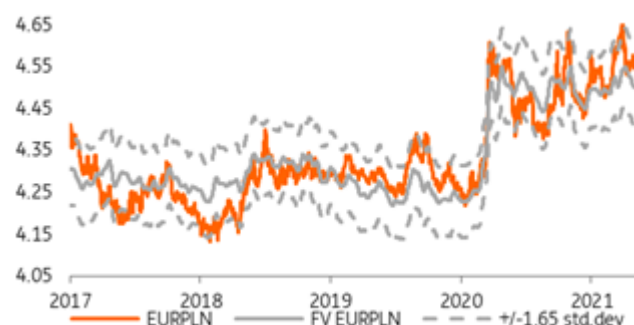
The largest CHF creditor already announced it made provisions for 23% of its FX mortgage portfolio, but already entirely closed all the FX positions resulting from a full conversion of CHF credits via the market. This makes it less likely for the NBP to help in the conversion process for other banks. The bank seemingly assumed that it would be able to offset a significant part of the losses i.e. via charging Wibor on such credits after the conversion (rather than CHF Libor), but the entirety of the portfolio will be converted into PLN.

Provisions among the other banks are lower, just about 10% for the other 6 banks with the biggest CHF loans portfolios. It is unknown what share of resulting FX positions have been closed, we assume at least the percentage of CHF loans portfolio which corresponds with provisions. However, given what the largest creditor already reported with regards to FX hedges, the share of CHF portfolio hedged by other banks may be significantly higher than the percentage of provisions. Otherwise it would mean they acknowledge the FX losses hence even higher provisions.

Market reaction

Based on our estimates the market has already largely priced out any risk to PLN related to the mortgage saga. Our relative value model gauges €/PLN equilibrium based on other market variables (swaps, money market rates, etc.). It indicates a level just below 4.50, hence not far from the current level, less than 2% of undervaluation. In March, at the peak the undervaluation reached around 4%. Much of the undervaluation of the zloty, particularly in March, likely resulted from the biggest creditor closing its FX position related to FX products in a relatively short time, reportedly around 4 months.

ING €/PLN relative value model, limited premium for mortgage conversion risk



Source: Source: ING

€/PLN outlook

We expect a moderate appreciation of the zloty in the remainder of the year. The Supreme Court rulings so far don't support a scenario of banks offering immediately mass settlements. While the banks are likely to gradually hedge their remaining FX positions, this is likely to be a significantly slower process compared to the biggest creditor. This should allow the market to once again focus on the domestic macro story.

We see a gradual €/PLN decline in the remainder of the year, reaching 4.40-45 at year-end.

We see several factors pointing to a gradual €/PLN decline in the remainder of the year, reaching 4.40-45 at year-end. Chiefly, Poland (unlike other CEEs) continues to show a significant current account surplus. The 2021 figure may be lower compared to 2020 (above 2%, compared to almost 4% of GDP), but still relatively high. Poland is less exposed to the automotive industry compared to other CEEs and continues to expand its export of services (shared services, IT, etc.).

Moreover, we see cracks within the Monetary Policy Council, pointing to faster rate hikes than previously expected (1H22). MPC members seemingly didn't expect CPI to rise as much in early 2021 and are no longer sure prices will significantly slow in 2022.

Key risks

The zloty and other CEE currencies showed significant negative correlation to US\$ in the past months. Hence should a market correction translate into a stronger dollar, this would be PLN negative. The zloty may also underperform other CEE currencies. Despite the NBP turning less dovish, the Czech National Bank in particular will most likely push much more for normalisation, likely hiking in 3Q21 already. This again makes PLN a prime candidate for shorting in the region.

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