



ESRB

European Systemic Risk Board

European System of Financial Supervision

Financial stability risks: Are housing markets back on the agenda?



27/06/2023

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RRE risk propagation mechanisms

↑ Inflation



↓ Household income

↑ Interest rates %



↓ House prices

VULNERABILITIES

House price overvaluation
Household indebtedness
Loose lending standards
High share of variable rate loans

Savings
Low unemployment

Higher PD and LGD
on RRE loans
Credit losses on
mortgage loans
Lower consumption
Credit losses on other
loans

Definition of stretches

Collateral stretch:

RRE prices, PTI, overvaluation

Lending stretch:

Loans to households for house purchases, Household loan spread

Household stretch:

Household debt, Household financial assets to debt, DSTI



Situation in the cycle

Continued expansion

Slowdown

Correction

Turning point



Low risk

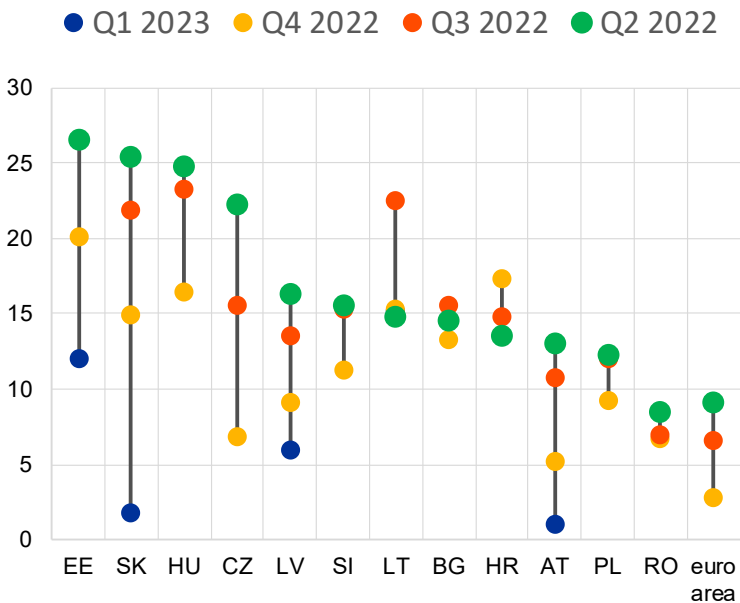
Medium risk

High risk

Nominal house prices started moderating – or declining

Nominal house price growth

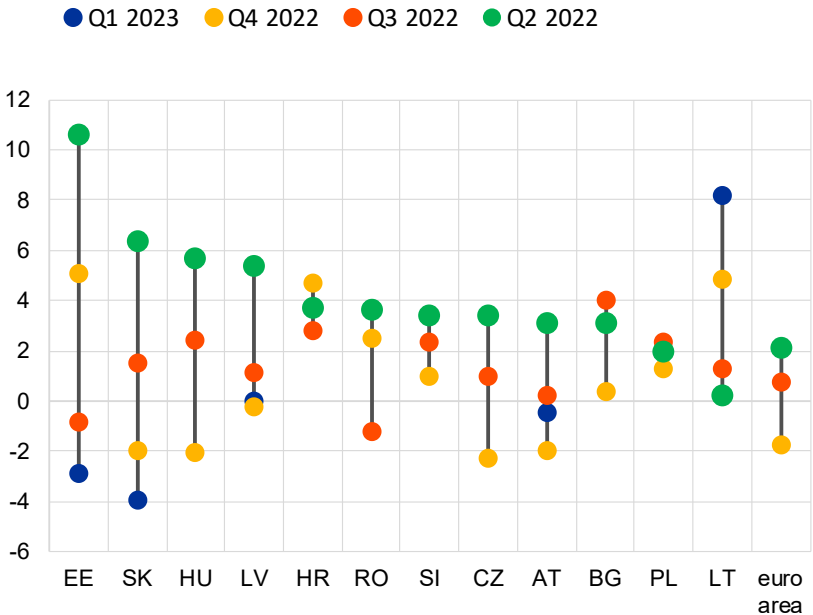
(annual percentage changes)



Source: Eurostat, ECB and national sources

Nominal house price growth

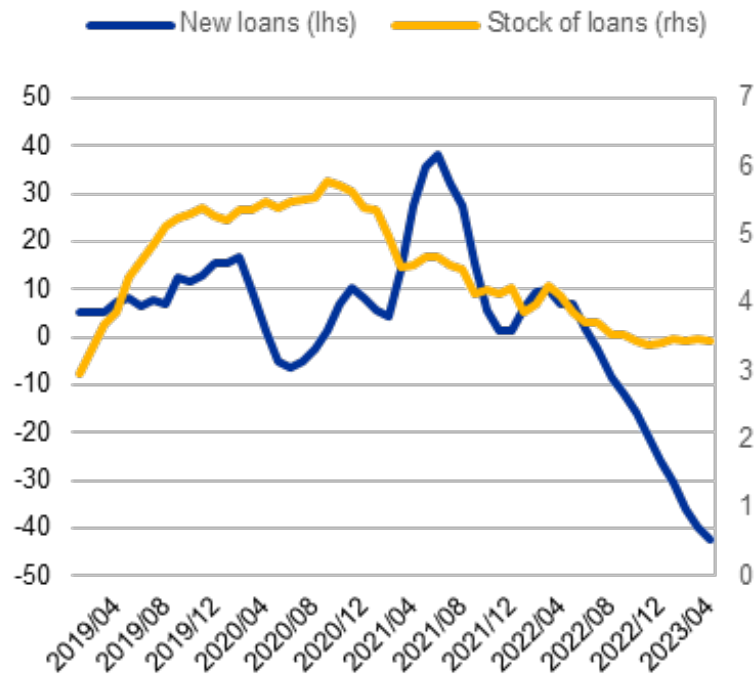
(quarterly percentage changes)



Source: Eurostat, ECB and national sources

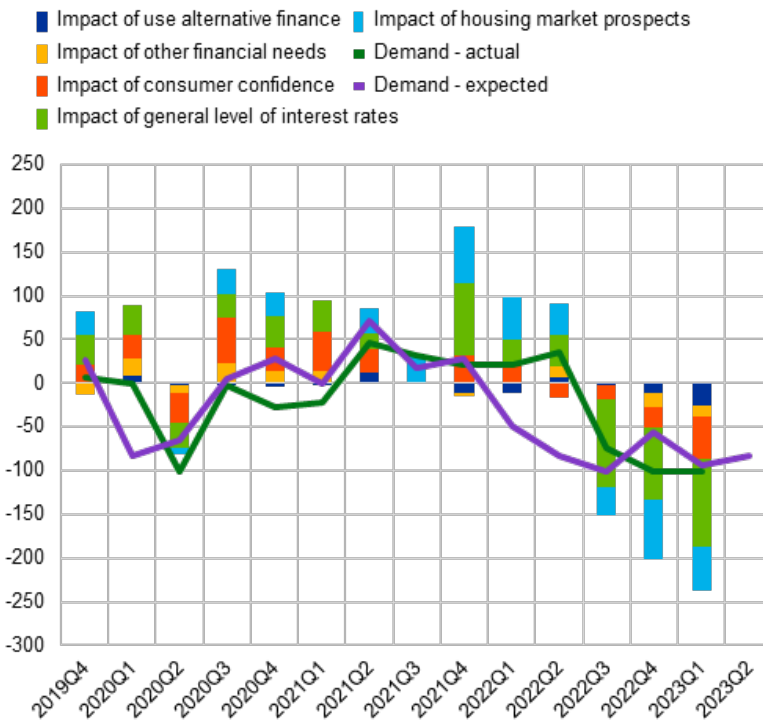
Loan demand declining on account of higher interest rates

Loans to households for house purchase (annual growth rate)



Source: ECB, ESRB calculations

Loan demand for house purchase (balances)

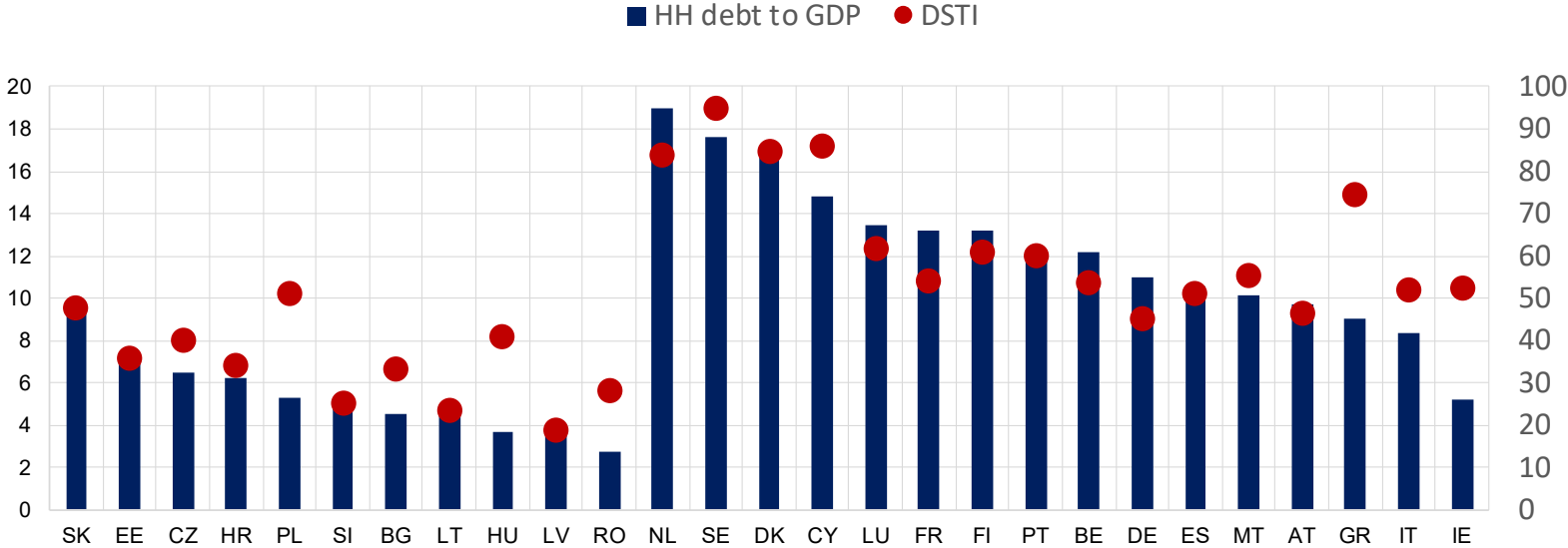


Source: Bank Lending Survey (ECB)

Household debt ratios low compared to other EU countries

Household debt and Debt service ratios

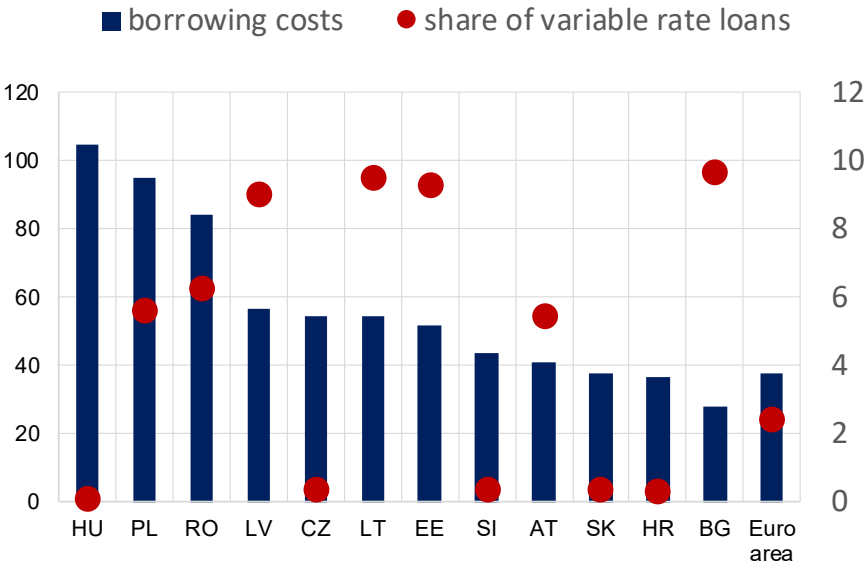
(% of GDP and % of disposable income)



Source: ECB

Borrowing costs differ across countries

Borrowing costs and share of variable rate loans



Source: ECB

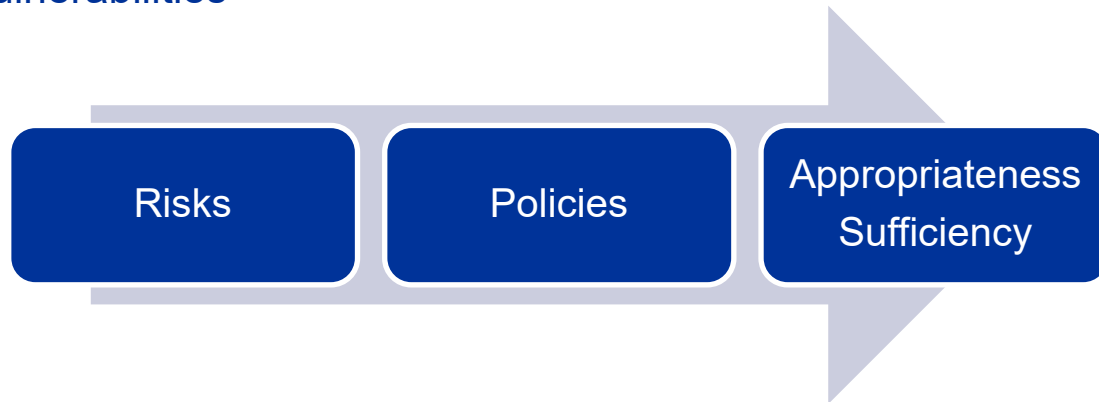
In terms of macroprudential policy, countries have continued being active since end-2021

A number of countries continued (re)building capital buffers by:

- Increasing the CCyB (BG, CZ, HR, HU, SK),
- Introducing the sectoral SyRB (SI).

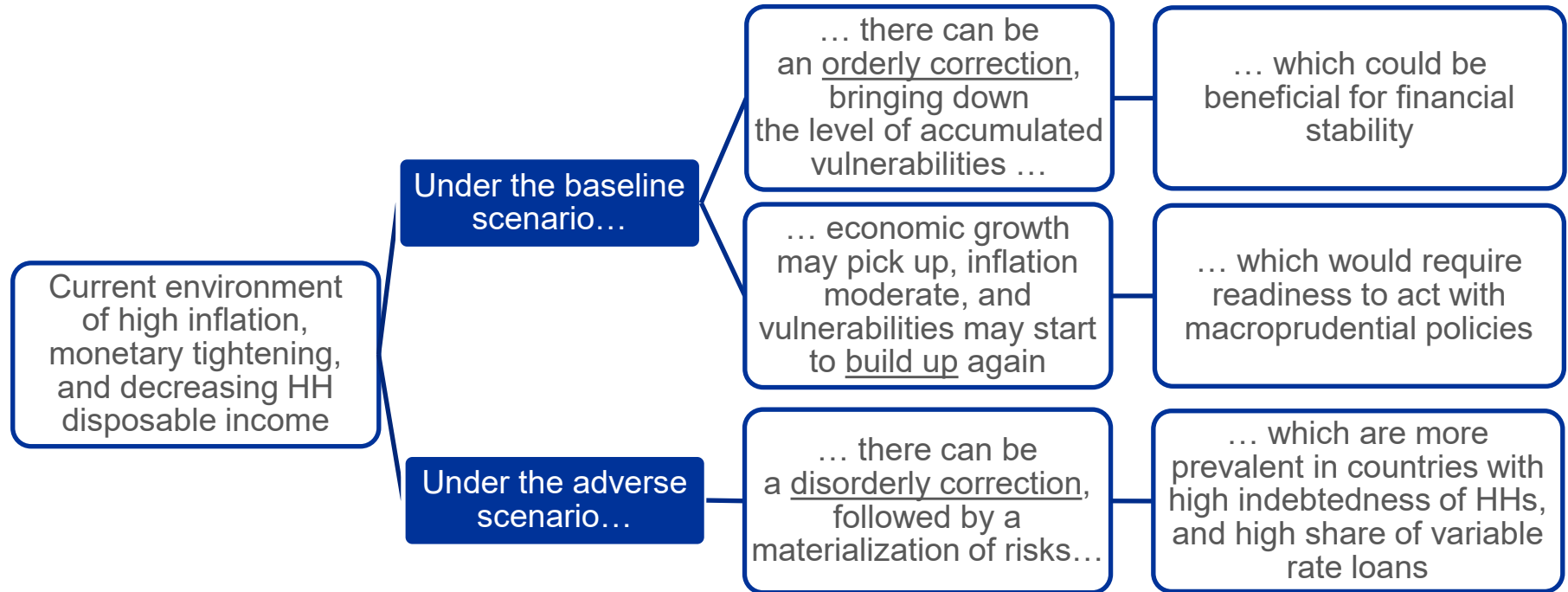
A few countries also acted using borrower-based measures:

- PL, SI, RO, SK adjusted the calibration of existing measures to address emerging sources of vulnerabilities



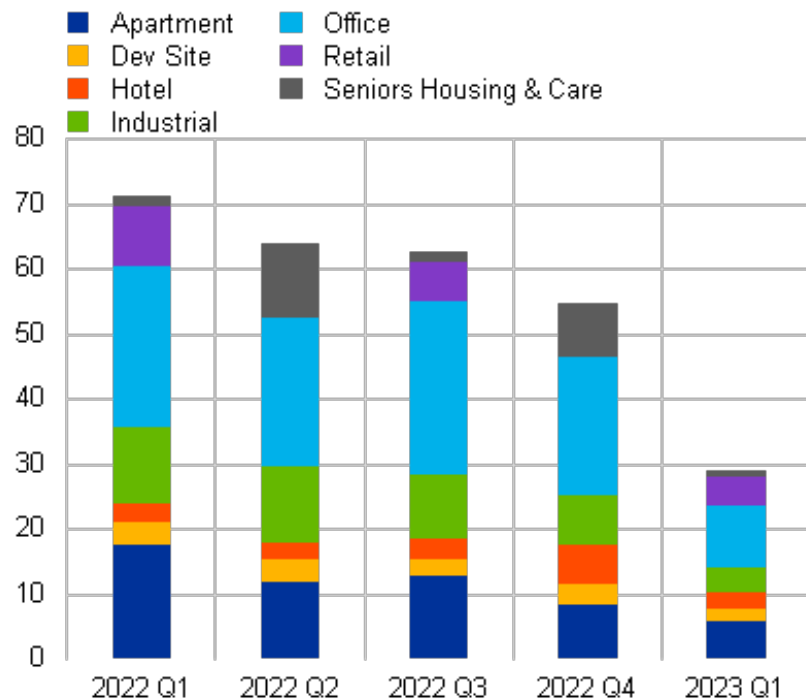
Given high uncertainty, *forward-looking* risk assessment lasts scenario dependant

3-year (medium-term) horizon of the ESRB forward-looking assessment



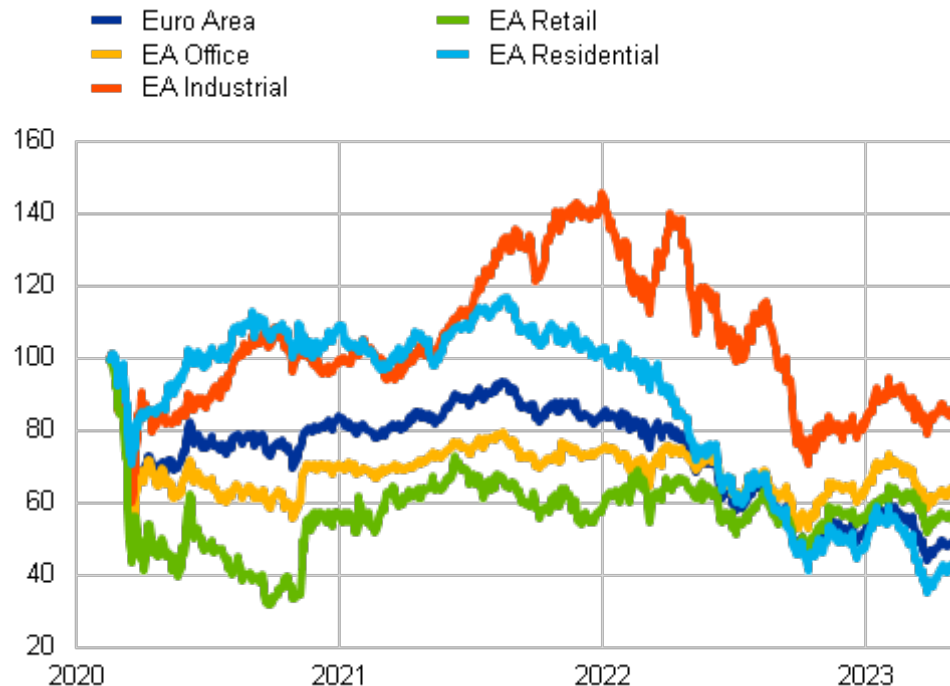
CRE transactions and prices have declined significantly

CRE transactions
(EUR billions)



Source: RCA

REIT indices
(17/02/2020 = 100)



Source: Bloomberg

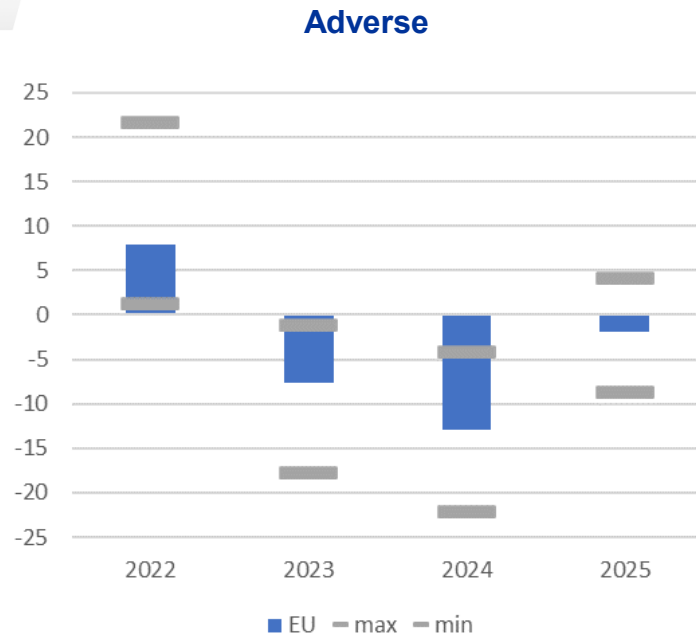
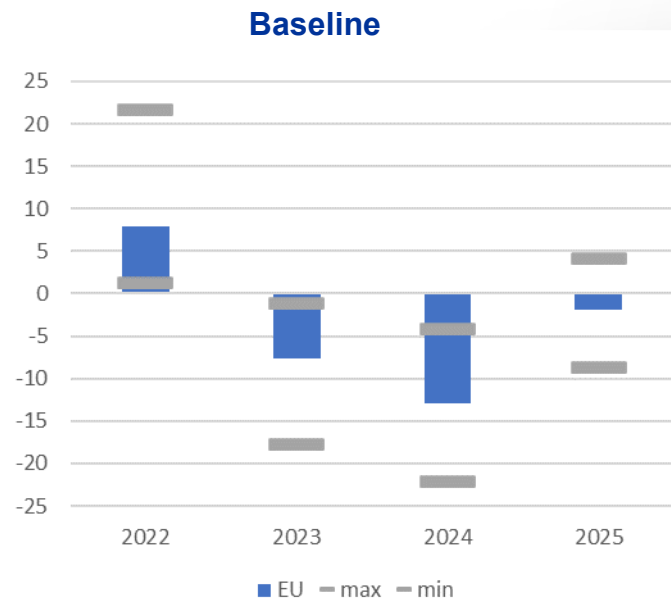
To sum up, so far...

- House price growth decelerated, and turned slightly negative in some countries, but so far no substantial decline.
- Some further house price correction likely in some countries given that the impact of higher interest rates and weaker economy have not yet fully been passed through.
- Some factors are dampening the impact of higher interest rates: for example, low housing supply, and labour shortages keeping up employment and wages.
- In an adverse scenarios macroeconomic and financial stability implications could be substantial
- Cross-country heterogeneity depending on vulnerabilities that built-up in past years and policy measures taken to mitigate those risks.

Background slides

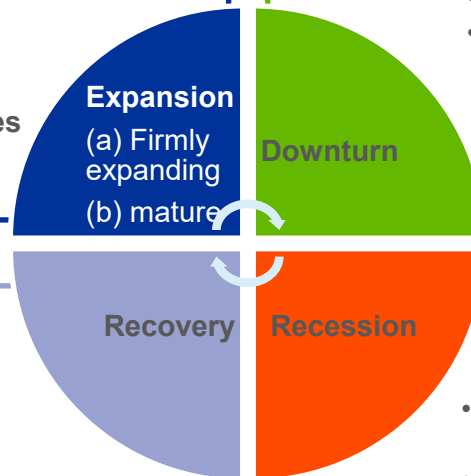
Baseline scenario: manageable financial stability implications expected

EBA stress test scenario for RRE prices
(annual growth rates)



Housing cycle

- Price growth and price overvaluation
 - Lending growth and overly optimistic underwriting, increasing indebtedness
 - Strong business activity in construction
 - Low vacancy rates, compressed margins, high number of transactions, low default rates
 - (a) Firmly expanding phase: house prices and lending growth
 - (b) Mature market with accumulated vulnerabilities: high indebtedness, **muted prices and lending dynamics**
- Balanced expansion vs boom**



- Price decrease and overvaluation
- Demand for credit decreases as HH and NFC balance sheet face deleveraging needs
- Limited access to credit
- Decreasing activity in construction
- Increase in vacancy rate
- Increase in margins, **decrease in transaction activity**, increase in default rates

- Price growth and undervaluation
- Lending growth, gradually eased credit standards
- Deleveraging pressure gradually eased
- Business activity in construction recovers
- Decreasing vacancy rate
- Decrease in margins, pickup in transactions, decreasing in default rates

- Price fall and undervaluation
- Limit access to credit
- HH and NFC deleverage, with negative impact on credit demand
- Decreasing in construction activity
- High vacancy rate
- High margins, small number of transactions, high default rates

Mild recession vs bust