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Housing Risk and Macroprudential Policy: Borrower Resilience and Credit Market Conditions

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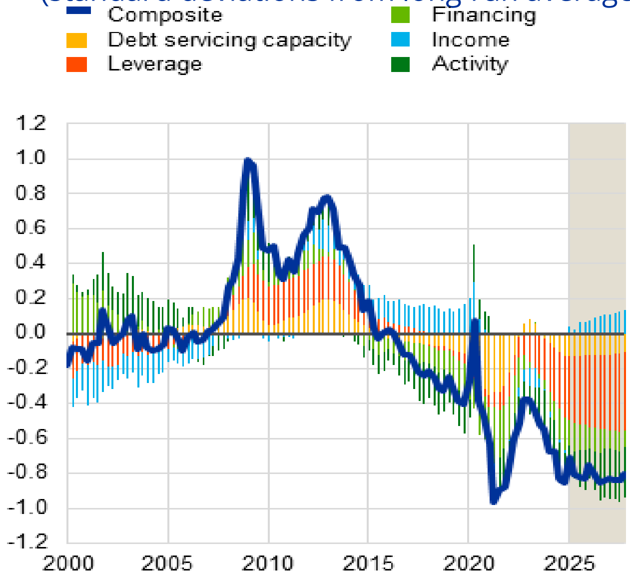
Housing risks and BBMs through the financial cycle

- Housing risks and borrowing conditions are intertwined and key to assess borrower vulnerabilities and resilience
- Household vulnerabilities vary through the cycle. Although household vulnerabilities have recently eased, elevated uncertainty could weigh on future macro-financial developments
- Borrower-based measures (BBMs) play a critical role in supporting financial resilience in the euro area
- Trade-offs between monetary and macroprudential policies may be less pronounced during periods of high interest rates

Household vulnerabilities remain low while the financial cycle start recovering

Composite indicator of Household vulnerabilities

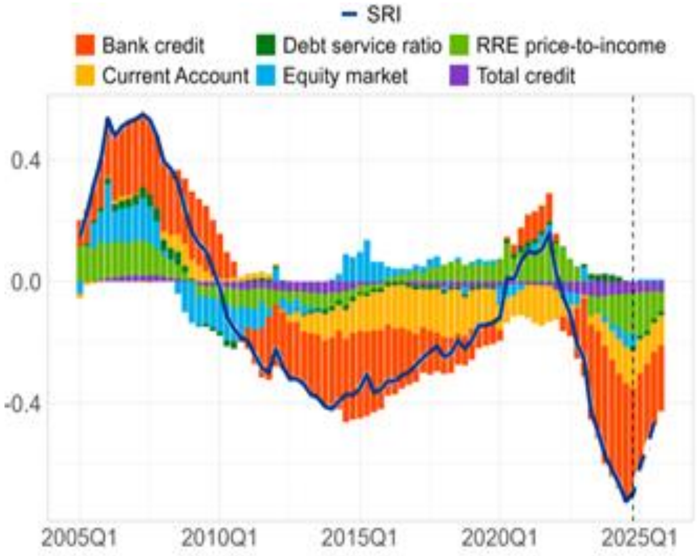
(standard deviations from long-run average)



Sources: Eurostat, ECB, and ECB calculations and estimates.
Notes: The composite indicator is based on a broad set of indicators along five dimensions: debt servicing capacity, leverage, financing, income, and activity. Finally, the overall composite indicator is obtained by equally weighting the composite z-scores of the five sub-categories. Positive values indicate higher vulnerability, while negative values indicate lower vulnerability. Latest observation: 2024 Q4.

Euro area Systemic Risk Indicator

(Weighted average of z-scores of SRI sub-components)

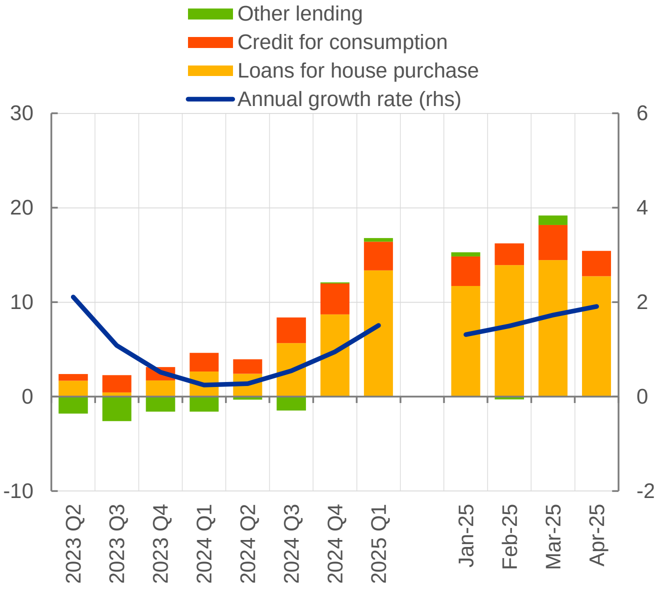


Sources: BIS, ECB (BSI, CSEC, QSA), ECB forecast database and ECB computations.
Notes: The SRI is based on Lang et al (2019) “Anticipating the bust”, ECB Occasional Paper No. 219. The SRI is constructed as a weighted average of six indicators with weights chosen to maximise the early warning properties of the composite SRI for systemic financial crises. SRI forecasts are based on March 2025 ECB staff macroeconomic projections.Latest observations: 2025 Q1 for bank loans, nowcast for 2025 Q1 for credit to private non-financial sector and total credit to firms.

Gradual recovery in household lending is narrowing the credit gap

Bank loans to households

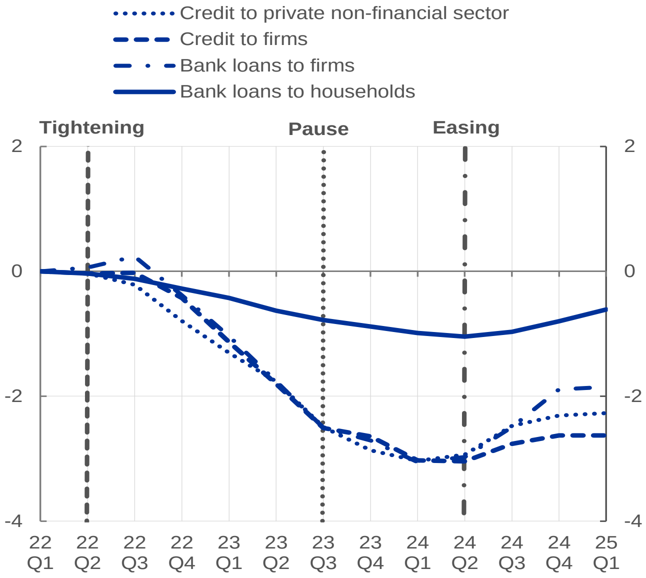
(average monthly flows in EUR bn; annual percentage changes)



Sources: ECB (BSI) and ECB calculations.
Notes: Bank loans are adjusted for sales, securitisation and cash pooling.
Latest observation: April 2025.

Credit gaps of realised credit vs conditional on macro

(percentages of stock, 2022 Q2 =0)

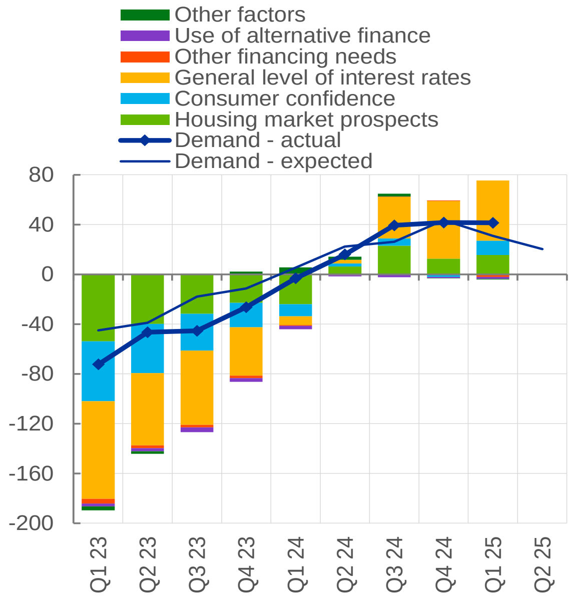


Sources: BIS, ECB (BSI, CSEC, QSA), ECB forecast database and ECB computations.
Notes: Cumulated difference between actual credit and counterfactual simulations of credit consistent with the observed macroeconomic conditions.
Latest observations: 2025 Q1 for bank loans, nowcast for 2025 Q1 for credit to private non-financial sector and total credit to firms.

Housing loan demand rose, but household sentiment plateaued

Changes in demand for housing loans

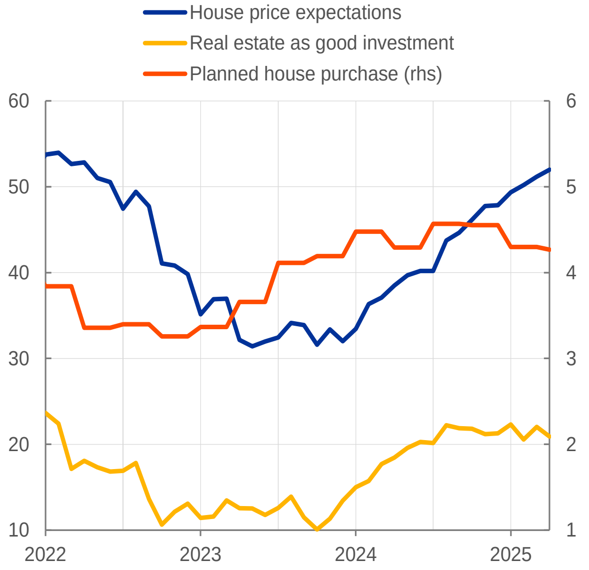
(net percentages of banks)



Source: ECB (BLS). Notes: "Other financing needs" is the average of "debt refinancing/restructuring and renegotiation" and "regulatory and fiscal regime of housing markets". "Use of alternative finance" is the average of "internal finance of house purchase out of savings/down payment", "loans from other banks" and "other sources of external finance". The latest observations are for 2025 Q1 (past) 2025 Q2 (expected).

CES indicators of housing demand

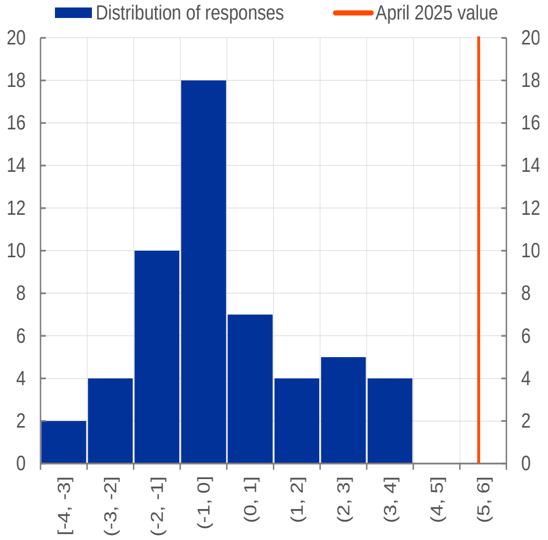
(percentages)



Sources: ECB (CES).
Notes: Lines plot the net percentage of households who (i) expect house prices to go up, (ii) view real estate in their neighbourhood as a good investment (iii) plan to make a house purchase in the coming year.
Latest observation: April 2025.

Changes in expected access to credit

(y-axis: monthly CES waves; x-axis: percentage points)

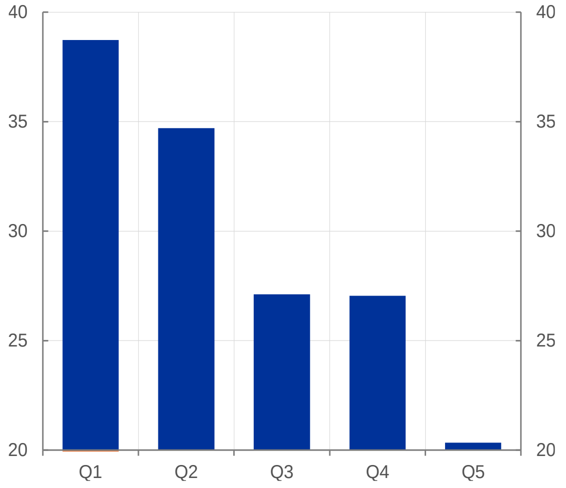


Sources: ECB (CES) and ECB calculations.
Notes: The chart is a histogram of the month-on-month changes in the percentage of CES respondents who expect credit access to become harder in the next 12 months net of the percentage of those who expect it to become easier. The height of each bar represents the number of months in the survey when such net percentage fell in the relevant range reported on the x-axis. Latest observation: April 2025.

The slow pace of mortgage repricing has heterogeneous impact

Mortgages repricing by 2030 by income

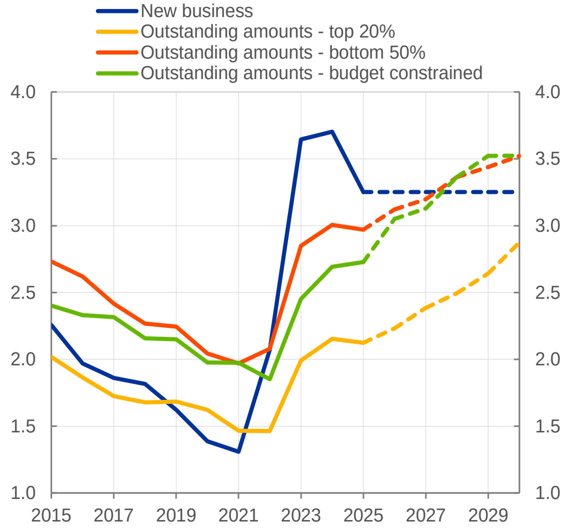
(percentages)



Source: Consumer Expectations Survey (CES) and ECB calculations. Notes: The statistics are computed from the CES housing module administered in February 2025. The shares are computed over respondents who have a mortgage outstanding and represent percentages of respondents rescaled by the annual survey population weights. Respondents are assigned to a specific quintiles based on their country specific distribution. Latest observation: February 2025.

Mortgage rates across income groups

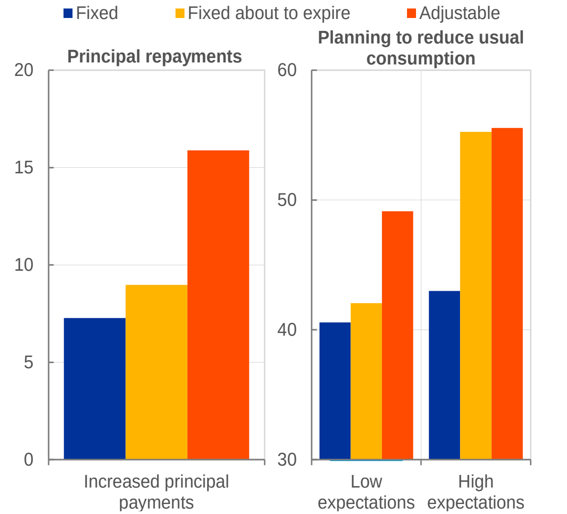
(percentages per annum)



Sources: ECB (MIR, BSI, CES) and ECB calculations.
Notes: The microsimulations project the rates on outstanding amounts using the household-level distribution of rates paid and remaining interest rate fixation periods. For each projected year we calculate the interest rate paid by each household by adjusting the interest rate of the existing loans with expiring fixation periods in the year they expire, and the ARMs with the country's latest available information for the new business rate on mortgages, to which we add a risk premium by income quantile calibrated to the macro country risk premia. Latest observation: February 2025 (CES), and March 2025 (MIR and BSI).

Reactions to changes in interest rate level

(percentage of respondents)



Sources: CES and ECB calculations. Notes: This chart shows the responses to the question "Please think about the level of interest rates over the next 12 months. Which of the following actions are you planning to take over the next 12 months because of this interest rate level?". Fixed interest rates about to expire are those that will reprice in the next two years to the market interest rate at that point. Panel a) shows the percentages that selected "Increase either principal payments or one-off payment on a mortgage", while panel b) shows the percentages that selected "Reduce usual spending". In panel b) we show the responses for low (bottom 20%) and high (top 20%) levels of interest rate expectations for the next 12 months. All responses are weighted using survey population weights. Latest observation: January 2025.

The main priority for macroprudential policy continues to be preserving bank and borrower resilience

- While euro area **balance sheets have improved** and debt is below pre-GFC levels, **heightened uncertainty** weigh on the economy

- **BBMs are mostly structural** in the EA, i.e. they do not change over the cycle, acting as backstop against excessive indebtedness, reducing risks in the tails

- But costs of BBM varies across the cycle and allowing **constant bindingness** is key

- In recent years, many countries under European banking supervision have maintained or adjusted capital- and borrower-based macroprudential measures to preserve sound lending standards via their role as permanent structural backstops on risky lending.

Most banking union countries currently have BBMs in place

BBMs		AT	BE	BG	CY	DE	EE	ES	FI	FR	GR	HR	IE	IT	LT	LU	LV	MT	NL	PT	SI	SK
LTV	***FTB***	90%	90%	85%	80%		85%		95%		90%	90%	90%		85%	100%	90%	90%	100%	90%	80%	80%
	SSB								90%		80%		90%		70%	90%		75%			70%	
LTV exemption	***FTB***	20%	35%	5%			15%				10%	20%	15%			0%	10%	10%				20%
	SSB		20%										15%			15%		20%				
DSTI/LSTI	***FTB***	40%	50%	50%	80%		50%		60%	35%	50%	45%			40%		40%	40%	30%	50%	50%	60%
	SSB										40%											
DSTI/LSTI exemption	***FTB***	20%	5%	5%			15%		15%	20%	10%	20%			5%		10%			10%	3%	5%
	SSB																			5%		
DTI/LTI	***FTB***		9 y										4 y				6 y					3-8 y
	SSB												3.5 y									
DTI/LTI exemption	***FTB***		5%										15%				10%					5%
	SSB												15%									
Maturity	***FTB***	35 y		30 y			30 y		30 y	25 y		30 y			30 y		30 y	40 y	30 y	40 y		30 y
	SSB																	25 y				
Maturity exemption	***FTB***	20%		5%			15%		10%	20%							10%				15%	10%
	SSB																					

Sources: ECB and notifications by national authorities.
Notes: Only housing loans are considered. Austria: loan-to-collateral (LTC) limits are considered instead of LTV. Belgium: LTV exemption rates refer to first-time buyers (FTB) and second and subsequent buyers (SSB). DSTI and DTI measures are computed as follows: DSTI>50% x LTV>90% (+5% exemption) and DTI>9 x LTV>90% (+5% exemption). Bulgaria: the 5% exemption applies to all three limits (LTV, DSTI and maturity) simultaneously. Ireland: the LTV and loan-to-income (LTI) exemption rates refer to FTB/SSB and buy-to-let (BTL) loans. The LTV limit for BTL loans is 70%, with an exemption of up to 10%. Finland: the LTC limit is considered instead of LTV. Croatia: the table includes announced measures that will be implemented as of 1 July 2025. Luxembourg: LTV for other residential real estate loans, including BTL loans, is 80%, with no exemption. Latvia: LTV limit for BTL loans is 70%. Malta: a distinction is made between category I and category II borrowers for the LTV exemption. An exemption rate of 10% applies to category I borrowers and a 20% exemption rate applies to category II borrowers. Portugal: for the DSTI exemption, 10% of loans can be granted to borrowers with a DSTI of up to 60%, while 5% of total loans can be granted to borrowers with a DSTI above 60%. Slovakia: for the LTV exemption, the LTV ratio may be up to 90% for up to 20% of new loans. Slovenia: up to 15% of consumer loans may have a maturity of up to 120 months if compliant with the DSTI cap.

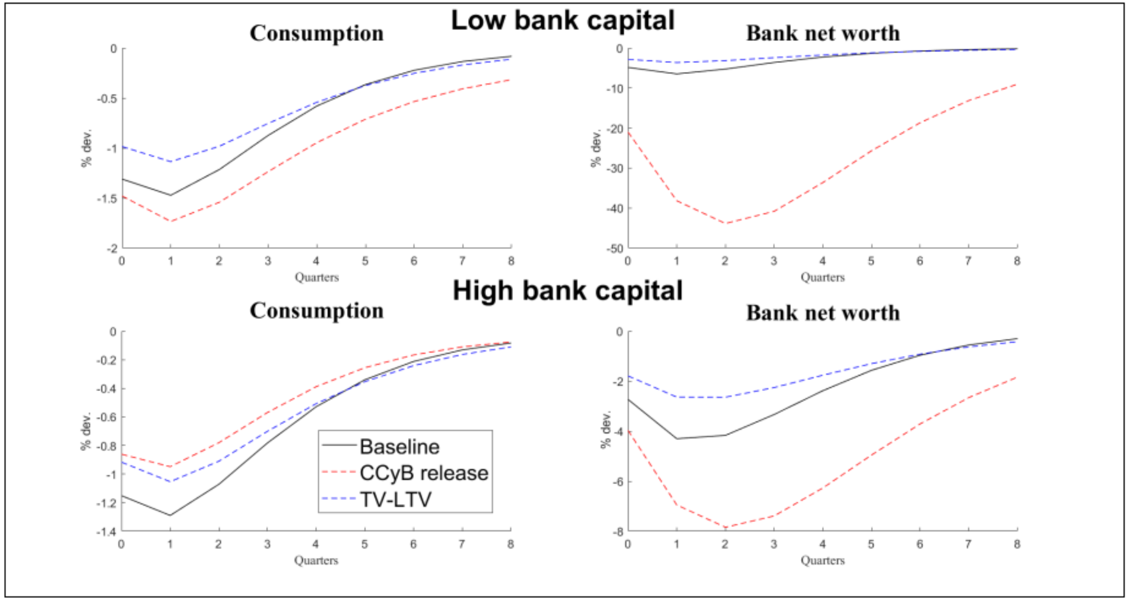
In relation to the build-up of financial stability risks, macroprudential policies are the first line of defence

When macroprudential tools are successful in strengthening financial stability, monetary policy can focus on its primary objective of price stability

- In low-rate environments, macroprudential policy curbs financial risks like over-indebtedness and excessive bank risk-taking
- As rates rise, its role shifts to supporting resilience and avoiding excessive credit tightening that could hinder growth

…in many instances, macroprudential policies and monetary policy are complementary (see e.g. Altavilla C., Laeven L., Peydró JL, 2020; Martin, A, Mendicino, C ,Van der Ghote, A, 2022)

When rates rise, changing BBM to maintain their bindingness constant across the cycle, is key to enhance resilience without hindering growth



Sources: Herrera, L, Mendicino, C, Nikolov, K, Scalone, V. (2025)

- Changing LTV to maintain bindingness constant over time, improve HH balance sheet without harming banks
- During tightening, CCyB releases may have beneficial effects provided that the banking system remains overall well capitalised and resilient

THANK YOU!