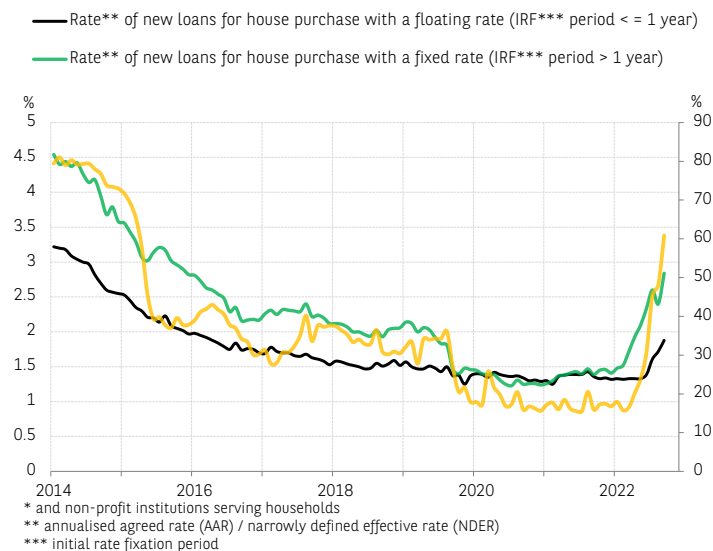


9 November 2022

ITALY: THE INCREASE IN FIXED RATES FOR HOUSE PURCHASE LOANS IS FAVOURING FLOATING RATES

Thomas Humblot

Italy: new loans to households* for house purchase



Source: ECB, BNP Paribas

In just seven months, the share of floating rates in the total of new loans for house purchase to Italian households has more than tripled, from 15.8% in February 2022 to 60.9% in September 2022. This latest figure has not been seen since February 2015 and, at that time, the share of floating rates was in a period of sharp decline, falling from 81.1% in February 2014 to 37.7% in August 2015.

The recent revival in interest in floating-rate loans for house purchase among Italian households is evidently a result of the average increase of 136 basis points (bps) in fixed-rate loans between January 2022 (1.48%) and September 2022 (2.84%). The increase recorded by floating-rate loans for house purchase since the beginning of 2022 has been more modest (55 bps). The differential with fixed rates has therefore increased to 96 bps, a level not seen since February 2015. As a result, the choice for Italian households in relation to the type of residential real estate financing seems to be dictated to a large extent by the differential between fixed rates and floating rates.

In the context of further rises in interest rates and an increase in the cost of banking resources, the increase in the share of floating-rate loans is prone to further preserve banking margins, but also to increase the loss ratio by increasing interest charges for borrowers. Unlike other eurozone¹ countries, the European Systemic Risk Board (ESRB) did not send Italy a warning or a recommendation in connection with any vulnerabilities in the residential real estate sector in 2021, as in 2019. Indeed, the recent increase in loans for house purchase (5% as of 31 March 2022) seems consistent with that of residential real estate prices (4% as of 31 December 2021), while the debt-to-GDP ratio (44%) and the debt service ratio (11%²) for Italian households are among the lowest in the eurozone³.

¹ Austria, Bulgaria, Croatia, Germany, Hungary, Liechtenstein and Slovakia, cf. ESRB, 2022, *Vulnerabilities in the residential real estate sectors of the EEA countries*, February 2022

² "Ratio of interest payments plus amortisations to income", cf. Drehmann et Al., 2015 *How much income is used for debt payments? A new database for debt service ratios*, BIS Quarterly Review, September 2015

³ ECB, 2022, *Financial Stability Review*, May 2022

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