

CHART OF THE WEEK

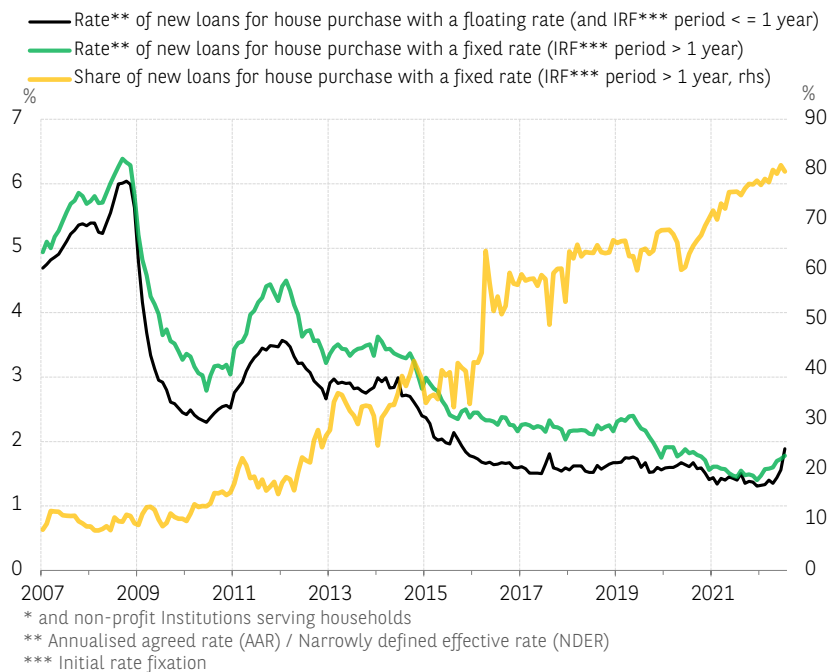


28 September 2022

SPAIN: COMPLETE REVERSAL OF REAL ESTATE FINANCING MODEL IN 12 YEARS

Thomas Humblot

Spain: new loans to households* for house purchase



The share of new loans to Spanish households for house purchase with a fixed rate remained at a record high level of 80% in July 2022 after peaking at 81% in June 2022. This percentage is the result of a complete reversal of the financing model of residential real estate in Spain in 12 years, driven by the low interest rate environment. Fixed rates used to represent a very small and relatively stable share of total loans for house purchase before 2010 (11% on average between January 2003 and December 2009). The increase in the percentage of fixed-rate loans protects a larger proportion of borrowers against the increase in repayments resulting from interest rate hikes and preserves their creditworthiness, which is likely to curb the rise in the cost of risk for banks.

Further monetary policy normalisation could make fixed rates more attractive in the short term, especially if households anticipate that rising bond market rates will continue to be passed on such rates. The phenomenon could be reinforced by the recent inversion in the hierarchy between fixed and variable rates. The latter, which is rather exceptional, stems from the rapid rise in money market rates since the beginning of the summer, under the influence of the imminent tightening of monetary policy, against a backdrop of fears about economic activity which have, on the contrary, weighed on bond yields.

thomas.humblot@bnpparibas.com

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Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34

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