European household credit markets continue to fall

Ales Chmelar, 21 August 2013

Summary

The ECRI Statistical Package 2013 Lending to Households in Europe 1995-2012 reveals that European households registered a second consecutive year of falling real values of loans: 2012 followed the first drop ever recorded in 2011. While debt reduction proceeds across the continent, deleveraging to disposable income remains limited due to unequal and sluggish recovery. The year 2012 was therefore one of stagnation in household-credit markets.

Aggregate housing loans in the EU registered negative real growth rates, illustrating long-term problems in the overall economy. Together with record-low interest rates on housing loans in some countries, this finding reflects lower consumer confidence and the increased strain on households’ medium-term income.

While credit reduction in the EU overall in 2012 was not as significant as in previous years, euro area (EA) households registered a bigger drop in household credit than in 2011, underlying the prevailing economic problems of 2012. At the same time, the EA periphery continued to reduce its household debt by record levels.

The stagnation is also present in the normally rather resilient Central and Eastern European countries, where the credit reduction extends beyond the former periphery to Poland and Slovenia. Households in Hungary, the Eastern Balkan countries and the Baltic states continued to reduce their debt exposure significantly throughout 2012.
1. EU household debt continues to stagnate

In 2012, the stock of loans to EU households decreased by 1.7% in real terms for the second consecutive year, continuing the downward post-financial crisis trend in retail credit markets. Some 18 states (compared to 17 in 2011) registered a reduction in the stock of loans in real terms.

With the exception of countries reducing the extent of the credit fall in 2011, only Slovakia saw its positive growth rate increase in 2012. This points to a larger convergence of household-credit growth rates compared to the previous year and to a general stagnation of credit markets throughout the EU.

A larger number of countries reduced their real household indebtedness in real terms than during the previous year. The deleveraging continued, most notably in countries with formerly large debt overhangs and where economic problems have been most palpable. The Baltic countries, Portugal, Denmark, Greece, Spain and Hungary have registered the biggest drops of over 5%.

Figure 1 illustrates the real growth of overall lending to households since the onset of the crisis.

![Figure 1 – Real growth rates of total household debt in the EU (2009-12)](image)

*Note: Italy’s credit expansion in 2010 has been omitted due to its adjustment to ECB/2008/32.*

2. Peripheral problems spread to the core

While the degree of credit reduction has not been as significant as in previous years in the EU overall, euro area households registered a bigger drop in household credit than in 2011, underlying the prevailing economic problems of last year.

After an apparent split of the EA into the core and periphery, the bleak development of credit markets has spread to the core. The observed decoupling in the EA countries is therefore becoming less stringent as even core countries have started to reduce their debt levels, with Austria and Germany and Italy — hitherto stable countries in terms of household debt — continuing their stagnation or registering fresh drops. Hence, household credit stagnation is now more equally distributed within the EA than in previous years.

Figure 2 illustrates real growth rates of household debt in a group of core and peripheral countries, demonstrating the progress of deleveraging in peripheral countries and a mild but clear trend in others. Average EU and EA trends do not yet properly represent the development of the household-debt cycle in any of these groups.
3. New member states falling in stagnation

The stagnation of credit markets has reached Central and Eastern Europe, despite higher growth rates prior to the crisis and the resilience of recent years. Poland and Slovenia reduced their household debt and other crisis-hit countries declined to cut theirs further.

The stagnation is also present in the normally rather resilient Central and Eastern European countries where the credit reduction extends beyond the former periphery to Poland and Slovenia. Households in Hungary, the Eastern Balkan countries and the Baltic states continued to reduce their debt exposure throughout 2012 by record levels. For the first time new member states saw a decrease of real credit values on an aggregate level (see Figure 2, left-hand side).

4. The pace of deleveraging underlines continuing lack of consumer confidence

Consumer credit in EU27 countries registered the fourth real negative year-on-year growth rate in a row, while housing loans and other loans to European households declined in real terms for the second consecutive year. The speed of real credit reduction, however, fell in 2012.

Figure 3 shows the development of different loans to households in the EU. The continued stagnation of mortgage loans with longer maturities following the previous development of more flexible consumer credit is a clear sign of muted confidence regarding medium-term income and overall economic recovery in Europe. While in 2011 expectations seemed to be undergoing a brief adjustment, the upward trend in growth in 2012 showed a possible longer-term pattern in mortgage markets in Europe.

In GDP terms, consumer credit follows the development of the economy more closely than housing loans, but the overall decline testifies to persistently low consumer confidence, probably anticipating modest increases in disposable income in the medium-term future.
European Credit Research Institute

The European Credit Research Institute (ECRI) is an independent research institution devoted to the study of banking and credit. It focuses on institutional, economic and political aspects related to retail finance and credit reporting in Europe but also in non-European countries. ECRI provides expert analysis and academic research for a better understanding of the economic and social impact of credit. It monitors markets and regulatory changes as well as their impact on the national and international level. ECRI was founded in 1999 by the Centre for European Policy Studies (CEPS) together with a consortium of European credit institutions. The institute is a legal entity of CEPS and receives funds from different sources. For further information, visit the website: www.ecri.eu.

The Author

Ales Chmelar is researcher at the European Credit Research Institute within CEPS in Brussels.

ECRI Statistical Package

Since 2003, ECRI has published a highly authoritative, widely cited and comprehensive set of statistics on consumer credit in Europe. This valuable research tool allows users to make meaningful comparisons among all 27 EU member states and with a number of selected non-EU countries, including the US and Canada. For further information, visit the website: www.ecri.eu or contact info@ecri.eu.

European Credit Research Institute (ECRI)
Place du Congrès 1
B-1000 Brussels, Belgium
Tel.: +32-2-2293911
Fax: +32-2-2194151
Email: info@ecri.eu
Web: www.ecri.eu

Disclaimer: The European Credit Research Institute is a sub-institute of the Centre for European Policy Studies (CEPS). The views expressed in this document do not necessarily reflect those of ECRI or CEPS’ members.