High household debt: A threat to financial and economic stability?

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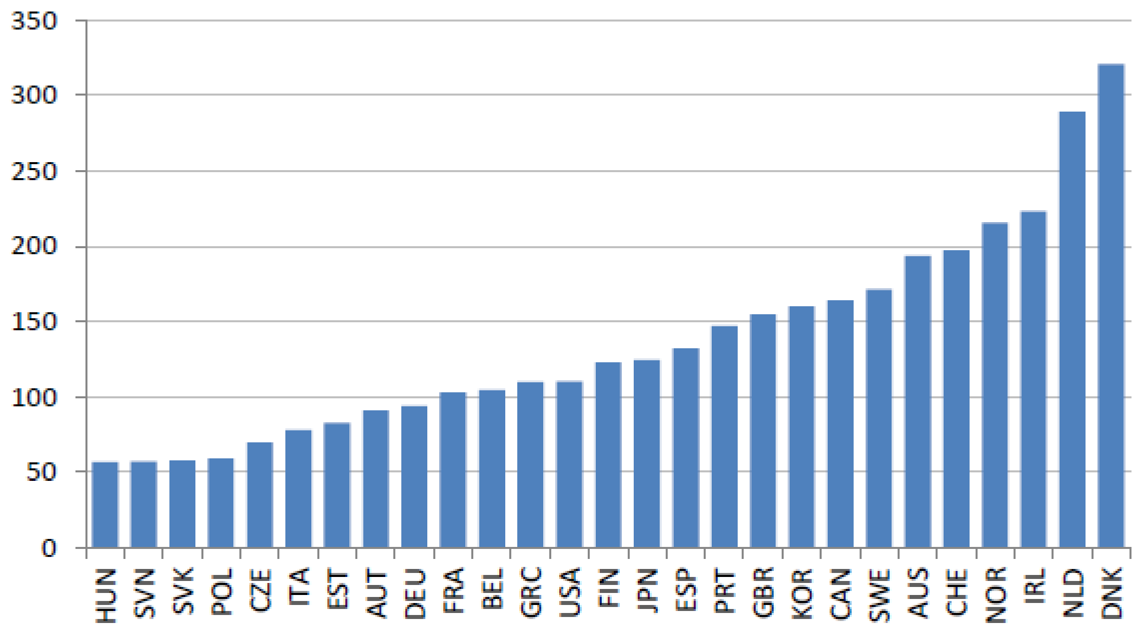
The Great recession has revived interest in the links between housing markets, household finance and the wider economy. The meltdown of the US subprime mortgage market was at the epicentre of the global financial crisis, which triggered the recession. Furthermore, in the run-up to the crisis, the United States was far from the only country experiencing a housing price boom. According to *The Economist,* the global housing boom was the "biggest bubble in history". Between the mid-1990s and 2008, household debt roughly doubled as a percentage of income in the OECD. While some deleveraging has taken place in a number of countries, like the United States and the United Kingdom, debt levels often remain high. In addition, exceptionally low interest rates are fuelling renewed increases in housing prices and debt build-ups in some countries.

Gross household debt in OECD countries

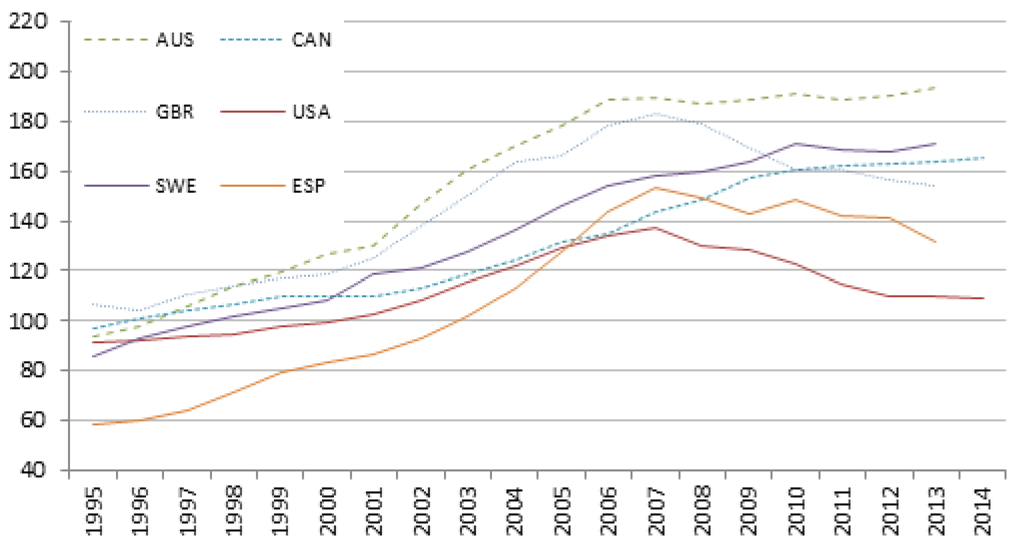
Per cent of net disposable income, 2013 or latest year available



Source: **OECD National Accounts database.**

Household debt developments in selected countries

Per cent of net disposable income



High gross household debt may foreshadow trouble for households, the financial system and the wider economy, but cannot stand alone as an indicator of risks. First, the household sector generally has large asset holdings, although their distribution tends to be highly skewed. Second, more than high levels of debt, it is often rapid increases, associated with housing booms, which presage adverse economic and financial developments. These can take many forms. Financial distress can result from a deterioration of lending standards, as illustrated by the meltdown of the US subprime mortgage market. Another source of vulnerability is fragile mortgage financing structures, notably involving excessive reliance on short-term borrowing, as in the case of the collapse of the UK mortgage lender Northern Rock in 2007. Even in the absence of a direct impact of adverse shocks – such as falls in housing prices, drops in household income or increases in interest rates – on the financial system, high household debt may amplify the business cycle, as households adjust consumption to cope with their financial obligations. This is illustrated by the macroeconomic impact of recent falls in housing prices in Denmark and the Netherlands, the two countries with the highest household debt-to-income ratios in the OECD.

Risks can be mitigated by sound micro-prudential regulation and supervision, macro-prudential policies and perhaps in some cases by monetary policy reactions. But a holistic approach to housing issues is needed to achieve at the same time financial stability and decent, sustainable housing conditions for all.

Find out more:

André, C. (2016), “Household debt in OECD countries: stylised facts and policy issues”, *OECD Economics Department Working Papers*, No. 1277, OECD Publishing, Paris.