

The influence of Macro factors on Residential Mortgage in Italy

Aim

The aim of the paper is to evaluate the influence of macro-economic and demographic variables on residential mortgage growth in Italy. This study will expand the indicator of macroeconomic variables considered in the analysis of mortgage trends and will also include demographic variables. The objective is to identify if and what is the relationship between the following variables and the provision of loans in the Italian market.

Literature review

The literature shows that the amount of residential mortgages outstanding is mainly driven by housing prices and the gross domestic product (GDP) but there is no clear evidence on the causal relation between the other macro-economic and demographic variables for the Italian market.

It has been widely discussed and it is now mainstream that mortgage lenders are concerned with the ability to pay by a prospective borrower. In this perspective, Gelfand (1970) suggested that lenders will prefer borrowers with stable incomes. This restricts mortgage finance to households with adequate levels of income or savings and this, by definition, excludes the poor according to De Soto (2000). Nevertheless, according to income visibility, the poor is not the only category to consider. In fact, after using a multi-clustered stratified sample data of households residing in informal settlements in Jakarta, Indonesia, Saleh (1999) found that mortgage loans were inaccessible to majority of households employed in the informal sector due to the nature of their incomes and the strict requirements of loan collateral by the formal housing finance sector. Other authors, later on, described which link may exist between mortgages and the informal sector. Demir et al., (2003) argues that employment is a factor influencing demand for housing loans. If the unemployment level in an economy is low, the potential house buyers' ability to engage with housing finance market increase. Hardt (2000) asserts that lack of job security and existence of informal employment determines the ability to access the housing loans. About the macro economic variable, Boamah (2009) argues that a macro-economic environment of low inflation is an essential ingredient of a successful mortgage market as it will lead to low and stable interest rates.) Periods of low inflation encourage the development of the real estate market, as interest rates on loans decrease (Bryx, 2006), while periods of economic growth have important features that influence the mortgage market (Hubbard and Mayer, 2009). Boleat (2003) posits that the mortgage market depends on the transfer of funds from savers to borrowers who are in need of funds to purchase a house. The mortgage lenders are in business of financial intermediation and will therefore rely on accumulated savings in an economy.

Sample

The sample consider all banks presents in Italy for which residential mortgage data are available in the balance sheet. The data are yearly and the time period analysed from 2002-2016. Bank control variable are collected from Bank of Italy database while macro-economic variables are from ISTAT and Eurostat database.

Methodology

The methodology adopted is the multiple regression analysis. We have as dependent variable the outstanding residential mortgage and as independent variable:

- Average Yearly Inflation Rate
- Average Yearly GDP growth Rate
- Average Yearly Exchange Rate

- Percentage Informal Sector Employment
- Treasury bill rate
- National Saving Rate
- House Price Index
- Structural Dependency Index
- Index of resident foreigners
- Number of leases

For each variable, in order to evaluate the relations within each other, we will run the following tests:

- Test of Normality
- Correlation test
- Multicollinearity Test

Expected results

We will expect that GDP per capita, House Price Index, informal sector employment and inflation have the highest influence on mortgage growth in Italy, while, demographic factors should show a negative impact on residential mortgage but not relevant for Italian market.

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