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# HOW DEMOGRAPHIC SHIFTS SHAPE MORTGAGE LENDING TRENDS IN THE EURO AREA

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# Abstract

One of the most significant structural challenges confronting the Euro Area is population aging. As younger borrowers predominantly drive demand for mortgage loans, an increasing proportion of older households is anticipated to have substantial implications for bank lending and the demand for residential real estate. In light of this, I examine the impact of demographic shifts on mortgage lending. Utilizing a bank-level panel dataset for the Euro Area spanning from 2015 to 2023, my analysis reveals that a changes in the number of employees aged between 25 to 34 years old have significant effects on the growth rate of mortgage loans. Given current demographic trends, this is expected to negatively affect bank profitability in the future and weaken the effectiveness of monetary policy due to a decreased credit-to-GDP ratio. Keywords: Mortgage lending, banking, panel data, demography

# INTRODUCTION

One of the greatest challenges facing the Euro area relates to demographics. Over the past ten years, the proportion of individuals aged 65 years and older has increased from 10% in 2013 to 21% in 2023. Furthermore, the total fertility rate has fallen from 1.6 to 1,4 birth rates, significantly below the replacement rate of 2. The increase in the aging population has a wealth of consequences on society, starting from pressure to public finances for supporting large number of retirees, lower expected GDP growth and higher reliance on migration. Furthermore, in the absence of an increasing workforce, increases in productivity will become the main



channel for economic growth. However, the small share of a younger workforce presents a significant impediment to developing and implementing such productivity gains (GFSR, 2017).

This paper aims to analyse how changes in the number of employees in different age brackets affected the issuance of new mortgage loans in the Euro Area. By looking into specific age brackets, such as those between 20 and 29 years old or those between 30 and 39 years old, this paper improves upon the literature which focuses on dependency ratios or the share of the population above 65 years old, as it gives a more timely and accurate depiction of the age distribution within a country.

In terms of banks' business models, an aging population will lead to lower demand for loans, while simultaneously supplying banks with significant deposits. The decrease in loan demand is mainly led by mortgage loans, while for consumer loans the impact is not so pronounced (Sever, 2023). Furthermore, banks are likely to face a structural liquidity surplus as they do not have enough demand in the economy to place savings of older households. Moreover, the excess supply of liquidity combined with lower credit demand is likely to reduce the equilibrium interest rate and decreases banks' lending margin as they face higher competition for allocating their resources in the economy (Summers, 2014). Finally, these developments are expected to increase banks' risk taking (Doerr, 2022). Consequently, they must loosen lending standards in order to include borrowers which were not previously eligible. Banks will have to adapt their business models, either by relying more on commission income and offering adjacent services such as insurance, which is in high demand for people in retirement, or shifting these resources to jurisdictions where demand for credit, and demographics, are robust. This is expected to reduce bank sector solvency, due to reduce loan demand, to increase tail risks for financial stability as banks seek new sources of revenue (Imam and Schmieder, 2025).

In regards to the real-estate market, a first consequence will be lower demand for new buildings as fewer younger people demand housing (Takats, 2012). Furthermore, as older people retire and some pass away, there will be an important supply of housing entering the market, also putting downward pressure on prices These developments will have important ramifications for the construction industry, as well as for real-estate price developments, as this will reduce demand for new buildings and lead to a lower investment-to-GDP ratio (Monnet and Wolf, 2017).

Finally, the efficiency of monetary policy will be reduced as the share of retired population grows (Imam, 2015). One of the transmission mechanisms relates to the credit channel, which is likely to have less importance as the share of credit to GDP falls (Imam, 2013). As the number of credit-constrained households decreases, the consumption channel



will become less significant. This is because older households tend to be less responsive to changes in interest rates in their consumption patterns. Additionally, corporate lending is expected to contract as domestic demand and the need for additional investments falls (Mason et. al, 2019). Consequently jurisdictions with a larger share of dependents (both old and young) are characterized by higher inflation rates, meaning that central banks will be forced to maintain high interest rates, despite lower growth prospects (Juselius and Takats, 2012).

This paper is closest to Sever (2023) which focuses on the role of population aging and convergence of household credit. The author develops a panel dataset for European countries between 1995 and 2015. Adding to this paper, my proposed method of identifying the impact of aging by focusing on different age brackets of employees is a more timely and accurate manner of quantifying ageing as opposed to simply looking at the number of people above 65. Given that only a small percentage of people above 40 years old take mortgages, this would tend to underestimate the impact that aging plays on credit demand. Finally, the current analysis focuses on Euro area countries, thus ensuring that there is a uniform monetary policy environment, consequently leading to a better isolation of the effect of aging on mortgage issuance.

#### **RESEARCH METHODOLOGY**

In order to quantify the effect of demographic changes on mortgage lending, I utilize a yearly panel at the country level. This setup benefits from both cross-sectional and time variation, thereby enabling robust identification of how the evolution of salaried employees affects the issuance of housing loans. Furthermore, the incorporation of country fixed effects ensures that the model controls for country-specific features that remain constant during the estimation period, including structural issues such as the type of financial system, the level of competition in the banking sector, or labour market legislation. Finally, year fixed effects allow for control of common shocks experienced by all countries, such as the monetary policy stance of the ECB or the COVID-19 pandemic.

The dataset is obtained by merging country level data from Eurostat regarding demographic developments with bank-level data from supervisory statistics. The dependent variable is the log of salaried employees at national level, split by 5-year intervals between 20 years old and 64 years old. I have chosen to include the log as this shows how a percentual change in the dependent variable affects the change in the stock of mortgages at bank level. In order to construct the variable of interest I utilize the Eurostat database regarding employment by sex, age and professional status. I focus only on salaried employees. This measure excludes self-employed persons and contributing family workers. This is very important for the current



analysis as the vast majority of mortgage loans are granted to those with stable employment i.e., excluding those who are self-employed. The intervals are chosen such that they provide enough granularity between age groups. The sample consists of 19 Euro Area countries<sup>1</sup>, containing observations for all periods between 2015-2023 for all countries except for Germany, for which the data is missing for 2020 due to lack reporting.



Figure 1: The distribution of salaried employees by age intervals in the Euro area between 2015 and 2023

Source: Eurostat, own calculations

Overall, the number of salaried employees increased by 10% between 2015 and 2023. However, the patterns were highly heterogeneous by age brackets, with most of the increase coming from the higher age groups. As can be seen in Figure 1, the number of salaried employees between 55 and 29 years old increased by 29%, while those between 60 and 64 years increased by 69%. On the other hand, salaried employees between 35 and 49 years old were stable, those between 25 and 34 years old increased by 6% and those bellow 24 years old increased by 18%.

Regarding country-level developments, we observe that the aggregate changes at the Euro area level mask significant heterogeneity among jurisdictions. Referring to Figure 2<sup>2</sup>, we observe that Latvia stands out as the only country that experienced declines in both young and



<sup>&</sup>lt;sup>1</sup> Cyprus, Netherlands, Ireland, Portugal, Finland, Belgium, Austria, Luxembourg, Malta, Italy, France, Estonia, Latvia, Slovakia, Lithuania, Germany, Slovenia.

<sup>&</sup>lt;sup>2</sup> I have presented only 3 main age categories: 20-29 years old, 30-39 years old and 40-64 years old for brevity and ease of interpretation.

older employees, given a low natality rate and high emigration to other Euro area countries (Hazans, 2019). A second set of countries (Lithuania, Slovakia, Estonia, Finland, Slovenia, and Cyprus), mainly those from the Baltics, experienced declines in the number of employees below 29 years old, combined with moderate to large increases in employees above 30 years old. In these cases, the overall working population has increased, despite the rise in the average age of the working population. A third group of countries, mainly from Southern Europe (France, Croatia, Portugal, Italy, and Spain) had significant increases in employees below 29 years old and above 40 years old, combined with declines in the number of employees between 30 and 39 years old. These countries benefited from immigration, which partially offset the low natality rate, as migrants tend to be younger than the average population. Finally, a number of countries, mainly those from Western Europe (Belgium, Germany, the Netherlands, Ireland, Luxembourg, and Malta), experienced growth in all segments of the age brackets. These countries managed to attract a significant number of migrants given their strong economic growth and competitive wages, which compensated for their low natality rates.







The data is taken from Single Supervisory Mechanism (SSM) Supervisory Statistics and covers banks which are designated as Significant Institutions in the Euro area between 2015 and 2023. A "Significant Institution" is a bank or financial institution that meets specific criteria and is subject to direct supervision by the SSM. The criteria for classifying an institution as significant include factors such as size, where the total value of the institution's assets typically exceeds €30 billion; economic importance, meaning the institution is deemed significant to the



economy of the European Union or one of its member states; cross-border activities, indicating the institution operates extensively in more than one EU member state. In addition to these criteria, the SSM may also consider other factors and exercise discretion in classifying an institution as significant.

The dependent variable is the yearly change in the stock of mortgage loan at bank level. Regarding controls, I have chosen to include CET1 capital ratio as it is a standard measure of banks' capitalization, thus showing their ability to absorb future losses and/or to expand their balance sheet. Return on Equity is included as measure of profitability. Banks with a higher level of profitability are more likely to expand lending as there are significant opportunities to be taken in the respective markets. Furthermore, by incorporating profits, they can increase buffers against future losses. The NPL ratio is included as it relates to the health of the economy and ability of debtors to pay. Banks with a high NPL ratio operate in an environment with a low ability of borrowers to cover debt service, thus loan demand for mortgages is expected to be low. Furthermore, high levels of NPL depress bank capital and reduce supply of credit, as banks become risk adverse to issue new loans. The log of total assets is included as banks' size is an important determinant of their ability to grant new loans. Larger banks have more complex risk management systems, have a wider territorial network and lower fixed costs, thus enabling them to grant more mortgage loans. All values are taken according to year-end financial reports. All the variables, including the yearly mortgage loan growth, are winsorized at the 2.5% level.

	Number of observations	Average	Median	Standard deviation
Mortgage loan growth y-o-y*	1168	2.06	2.395	18.14
Total assets**	1,168	173	45	352
Return on equity*	1,168	5.8	6.1	7.0
CET1 Ratio*	1,168	17.54	15.8	6.012
NPL ratio*	1,168	4.5	2.8	5.5
Loans/Total assets*	1,168	70.7	71.8	15.2
Number salaried employees 20-24 years old***	1,168	809.6	324.5	977
Number salaried employees 25-29 years old***	1,168	1,195	508.5	1,294
Number salaried employees 30-34 years old***	1,168	1,356	531.4	1,444

Table 1: Main descriptive statistics



Table 1...

Number salaried employees 35-39 years old***	1,168	1,422	538.1	1,451			
Number salaried employees 40-44 years old***	1,168	1,481	565.4	1,467			
Number salaried employees 45-49 years old***	1,168	1,536	559.1	1,553			
Number salaried employees 50-54 years old***	1,168	1,588	534.2	1,713			
Number salaried employees 55-59 years old***	1,168	1,407	472.8	1,598			
Number salaried employees 60-64 years old***	1,168	775.6	235.8	992.7			
* percent, ** millions Euro, *** thousands Source: SSM Supervisory Statistics, Eurostat, own calculations							

Overall, the dataset comprises 1,168 bank-month observations, spanning nine years, 19 euro area countries, and 208 unique banks. Table A1 in the Annex illustrates the distribution of banks by year and country. The countries with the largest number of banks include Germany, Italy, Spain, Luxembourg, and France, each with ten or more banks per year. Other, smaller countries, such as the Baltic states, have between two and four banks annually. Given the limited size of these jurisdictions and the significant role of subsidiaries of foreign lenders, such a small number of banks is expected, as the analysis focuses solely on Significant Institutions. Examining the value of mortgage exposures in Table A2 in the Annex provides further insight into their economic significance. Consequently, while jurisdictions such as Spain, France, Germany, and Italy account for approximately 60% of overall exposures, other smaller countries, such as the Netherlands and Belgium, also make substantial contributions, representing around 25% of exposures. The nine countries<sup>3</sup> with the smallest share of exposures account for 2.5% of loans, despite representing approximately 30% of the total number of banks.

As can be seen in Table 1, the average yearly rate of growth for mortgages at bank level is 2,1%, with a median of 2,4%. This shows that the distribution is well-behaved and there are no major outliers. The average total assets of banks are 173 million Euros, with a median of 45 million Euro, showing that there are many large banks. The average Return on equity for the sample period is 5,8%, showing that banks had moderate level of profitability. The average CET1 ratio is 17%, showing that banks had adequate capitalization, while the average NPL ratio is 4,6%.



<sup>&</sup>lt;sup>3</sup> Luxembourg, Slovakia, Estonia, Lithuania, Croatia, Cyprus, Malta, Slovenia, Latvia

Regarding the number of employees, we observe that, on average, there are between 800 thousand and 1,6 million employees in each age bracket, with the lowest number of employees at the extremes of the distribution. The largest number of the employees are between the 45 to 54 year old intervals. As mentioned above, these variables will be included in log-form in order to ensure comparability between different countries.

The empirical specification is a yearly bank-level panel using ordinary least squares as shown below:

> Mortgage loans growth  $_{i,t} = \beta_0 + \beta_{1,i} * \log(Employees)_{i,i,t}$ +  $\beta_2 * Return on equity_{i,t} + \beta_3 * CET1 Ratio_{i,t}$  $+ \beta_4 * NPL Ratio_{i,t} + \beta_5 * Loan / Total Assets Ratio_{i,t}$  $\beta_6 * Log (Total assets)_{i,t} + Bank_i FE + Year_t FE + \varepsilon_{i,i,t}$

Where, the index *i* represents the bank identifier, *t* represents the year and *j* the age bracket. The main coefficient of interest is  $\beta_1$  as it isolates the impact of the percentual change in the number of employees in the specific age bracket, on the yearly growth rate of the stock of mortgages. I also include bank fixed effects to control for other unobserved differences at banklevel such as management quality and risk appetite, as well as structural differences between the different jurisdictions. Year fixed effects absorb the impact of shocks which were common across the Euro area, such as monetary policy decisions or the COVID-19 pandemic.

# RESULTS

Table 2 presents the results for the baseline specification. All specifications are identical: however, each includes a different age bracket as a dependent variable. Regarding the banklevel controls, we observe that Return on equity, the CET1 ratio, and the NPL ratio are all statistically insignificant. This indicates that these characteristics are already accounted for by the bank-specific fixed effects. The logarithm of total assets is both positive and significant, indicating that larger banks possess a greater ability to issue new loans. Specifically, a 1% increase in bank assets corresponds to a 0.15% increase in the annual growth rate of mortgages.

Turning to our variable of interest, we observe varying effects across age brackets. Firstly, changes in the number of employees between 20 and 24 years old have no effect on mortgage issuance. This is expected, given that these individuals are just starting their careers and have limited incomes. The coefficient for the 25-29 years old age bracket is statistically significant and positive. Consequently, a 10% increase in the number of employees in this age



group is expected to increase mortgage growth by 2.3%. Given that the average growth rate of mortgages in the sample is 2.1%, this is an economically significant effect. Borrowers between 25 and 29 years old are the main demanders of mortgages as they are starting families while benefiting from higher wages compared to younger employees. In certain countries, such as Latvia (-37%), Estonia (-26%), Lithuania (-22%), or Slovakia (-21%), there were cumulative decreases of 20% or more between 2015 and 2023. Consequently, the reduction in employees between 25 and 29 years old had an impact of -5% or more on mortgage issuance in those countries. On the other hand, there are jurisdictions such as Malta (+66%), Luxembourg (+25%), Ireland (+22%), or Spain (+21%), which registered increases of 20% or more. In these cases, demographic developments had an important influence on mortgage issuance.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
	years								
	old								
Log (Salaried	0.10	0.23**	0.12***	0.12	0.3	0.40	0.16	0.23	0.15
employees)	(5.74)	(7.73)	(1.28)	(9.26)	(7.52)	(6.37)	(10.02)	(16.65)	(10.64)
Return on Equity	0.22	0.23	0.22	0.22	0.23	0.23	0.23	0.23	0.22
	(0.16)	(0.15)	(0.22)	(0.15)	(0.16)	(0.16)	(0.16)	(0.15)	(0.15)
CET1 Ratio	0.23	0.16	0.25	0.26	0.25	0.24	0.21	0.25	0.22
	(0.32)	(0.32)	(0.33)	(0.31)	(0.32)	(0.32)	(0.31)	(0.33)	(0.31)
NPL ratio	-0.29	-0.31	-0.39	-0.39	-0.33	-0.31	-0.27	-0.27	-0.29
	(0.25)	(0.25)	(0.34)	(0.28)	(0.26)	(0.25)	(0.27)	(0.26)	(0.25)
Log (Total	0.16***	0.16***	0.15***	0.15***	0.15***	0.15***	0.15***	0.16***	0.15***
assets)	(3.39)	(3.45)	(3.52)	(3.54)	(3.60)	(3.69)	(3.70)	(3.32)	(3.71)
Loans/Total	0.33**	0.34**	0.35**	0.36**	0.35**	0.35**	0.36**	0.35**	0.34**
assets	(0.11)	(0.11)	(0.14)	(0.12)	(0.12)	(0.11)	(0.11)	(0.11)	(0.11)
Observations	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150
R-squared	0.42	0.43	0.42	0.42	0.42	0.42	0.42	0.42	0.43
$R^2$	0.424	0.426	0.423	0.423	0.422	0.422	0.424	0.425	0.425
Bank FE	Yes								
Year FE	Yes								
Likelihood	-4636	-4634	-4636	-4637	-4637	-4637	-4636	-4635	-4635

Table 2: Results of the baseline specification

We also observe a positive and statistically significant effect for employees between 30 and 34 years old, however the impact is around half of the magnitude. Consequently, a 10% increase in the number of employees in that age bracket leads to a 1.5% increase in the rate of growth of mortgages at the bank level. Overall in the Euro area, the number of employees between 30 and 34 years old increased by 6% between 2015 and 2023, therefore the overall effect is not very strong (+0.9%). Similar to the previous age category, there are certain



jurisdictions which experienced significant growth during the analysed period. For example, in Malta, employees between 30 and 34 years old increased by 91%, contributing to a 14% increase in the stock of mortgages. On the other hand, several countries had increases of around 20% (Netherlands, Luxembourg, Cyprus), where these demographic changes only contributed to an increase of  $\sim 3\%$  in the stock of mortgages.

The coefficients for the employees in the age brackets above 35 years old are positive but insignificant. Given that these households are less likely to hold mortgage loans, it shows that they did not significantly affect demand for new mortgage loans. These results confirm the importance of labour market and demographic developments in support mortgage lending and the residential real-estate market. If negative demographic changes continue, such as low natality rate, this is expected to have adverse effects on the profitability of the Euro area banking sector and the growth of real estate prices. On the other hand, policies which reduce youth unemployment and encourage immigration of young workers are expected to have positive side effects.

### CONCLUSION

This current paper builds upon existing literature to analyse the mechanisms through which demography affects financial intermediation. I focus specifically on mortgage loans, which are the most important source of debt for households. This paper expands on previous literature which focused on aggregate indicators such as the dependency ratio or the share of population above 65-years old. Given that mortgages are held mostly by younger debtors, at the beginning of their professional and family lives, such indicators would fail to adequately quantify how changes in the labour market affect demand for mortgages. Instead, I segment salaried employees by 5-year age brackets, between 20 and 64 years old, thus giving a timely and granular assessment of developments in the labour market and their link with demographics.

Using a bank-level dataset, which spans nine years and covers 19 countries within the Euro area, I show that changes in the number of employees between 25 and 34 years old have a significant effect on the issuance of mortgage loans, while changes in other age brackets have no impact on mortgage lending. This has important implications for the health of the real estate market, the soundness of the banking sector, and the efficiency of monetary policy. Regulators should closely monitor the labour market, specifically focusing on the evolution of young employees, not just aggregate developments that may mask shifts to higher age brackets. Given current demographics terms in the Euro area, this shows that the current low birth-rates will have far-reaching effects on the financial sector and real-estate markets. In this regard, introducing policies that support youth employment and attract young skilled migrants would



provide substantial benefits and positive spillovers to both the banking sector and the real estate sector.

This paper has not yet explored the potential asymmetric effects of demographics based on the characteristics of the financial sector, real estate market, or labour market. For instance, it would be beneficial to analyse whether demographic factors have varying impacts by categorizing countries according to their levels of indebtedness. This approach could help determine if high household debt levels pose a limitation to the growth of mortgage issuance. Additionally, examining the effects of demographics on real estate prices and overall housing market valuations would be worthwhile.

Another promising direction for expanding the current analysis would be to include non-Euro Area countries. These countries have distinct financial system structures and have experienced different demographic trends. Such an analysis is likely to provide new insights and highlight the mechanisms through which demographics influence mortgage loan issuance.

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# ANNEX. Additional descriptive statistics

	2015	2016	2017	2018	2019	2020	2021	2022	2023
AT	8	8	5	7	7	7	8	7	7
BE	8	8	9	10	6	8	9	7	8
CY	1	2	3	4	6	6	5	5	5
DE	12	19	22	20	22		22	21	21
EE	2	2	2	2	2	3	3	3	3
ES	16	17	15	15	13	14	11	13	12
FI	2	1	1	1	3	3	3	3	3
FR	5	10	10	10	10	10	10	10	8
HR		4	6	5	6	6	6	5	5
IE	3	4	3	4	5	6	5	5	4
IT	15	15	14	15	14	16	14	14	15
LT	3	3	3	3	2	2	3	3	3
LU	6	7	10	7	14	16	15	15	14
LV	3	3	3	2	2	2	2	2	3
MT	2	3	3	3	2	2	3	3	3
NL	4	5	7	7	4	5	6	4	4
PT	6	6	8	5	6	6	6	6	6
SI	4	4	8	8	8	6	8	6	6
SK	4	4	4	4	4	4	4	4	4

Table A1. Distribution of bank by year and country

Source: Supervisory data, own calculations.

	2015	2016	2017	2018	2019	2020	2021	2022	2023
AT	98	76	65	105	111	119	127	139	139
BE	206	218	226	227	242	257	271	307	318
CY	0.7	0.6	0.7	5.1	8.8	7.8	7.1	7.3	7.3
DE	309	368	446	457	470	0	518	545	552
EE	4.5	4.7	5.1	5.4	5.9	11	12	12	13
ES	874	834	725	821	824	745	811	851	831
FI	40	12	39	40	154	162	172	171	169
FR	363	566	555	590	606	619	674	648	648
HR	0.0	4.6	5.8	5.2	6.1	6.6	7.0	7.7	8.4
IE	114	122	48	104	104	106	85	73	85
IT	338	328	323	358	365	414	448	472	473
LT	4.8	5.7	7.0	7.5	5.8	6.4	7.3	8.2	8.6
LU	11	24	21	23	31	36	38	39	38
LV	2.5	2.5	2.5	2.3	2.4	2.5	1.7	1.8	2.0
MT	3.3	3.5	3.6	3.9	3.8	4.3	6.2	6.8	7.4
NL	628	673	672	675	484	683	701	717	726
PT	97	94	94	82	92	93	98	101	100
SI	2.5	2.7	4.5	4.8	5.1	5.0	5.7	6.1	5.6
SK	14	17	19	22	24	26	28	32	33

Table A2.	Distribution of	mortgage	exposures	by year	and c	ountry	(millions	of Euro)
							<b>\</b>	

Source: Supervisory data, own calculations.

