

## Yannis Stournaras: What can central banks do about housing affordability

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at the 32nd Dubrovnik Economic Conference, organised by the Croatian National Bank, Dubrovnik, 30 May 2026.

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It is both an honor and a pleasure to be here at this panel discussion as part of the Dubrovnik Economic Conference.

Housing affordability has become one of the defining economic and social challenges of our time. Across advanced and emerging economies alike, the cost of housing has risen faster than incomes, placing increasing pressure on households and threatening both social cohesion and economic efficiency.

At the core of this issue lie two fundamental questions. *First*, what determines the "appropriate" level of house prices and rents, and how adequate is current housing supply? *Second*, what are the wider implications of housing unaffordability on the broader economy, particularly in urban centers that act as hubs for economic activity, innovation, and talent attraction? How does this issue affect labor markets, productivity, and long-term economic growth?

Let us begin with the *first* question. The long-term increase in house prices is not a mystery. It is largely explained by demand and supply fundamentals. Rising household income and accumulated wealth have increased purchasing power. Demographic changes—such as smaller household sizes and urbanisation—have intensified demand in cities. At the same time, supply has often struggled to keep pace due to construction costs, land scarcity, zoning regulations, and other building restrictions.

Monetary policy has also played a role. A prolonged period of low interest rates has enhanced the attractiveness of real estate as an investment. Although low rates offer favorable conditions for businesses and households, they may also contribute to increased investment in the housing market, while simultaneously reducing the incentives for saving in low-yield environments.

Indeed, in many European countries, a large share of property purchases is not financed through mortgages. This suggests that housing demand is increasingly driven by accumulated wealth and investment motives. As a result, higher-income households are able to outbid others, crowding out less affluent households from housing markets.

This brings us to the *second* question: the efficiency losses associated with unaffordable housing. When workers cannot afford to live near centers of economic activity, labour mobility is reduced, vacancies remain unfilled, and productivity growth is constrained. Housing affordability, therefore, is not only a social concern but also a macroeconomic one.

At this point, it is useful to briefly consider the *case of Greece*, which clearly illustrates many of these developments.

In recent years, the Greek housing market has shown an imbalance between supply and demand, especially in metropolitan areas such as Athens. Prices and rents have increased significantly, even though the pace of growth has moderated somewhat. At the same time, housing affordability has deteriorated, with households facing one of the highest housing cost burdens in the euro area.

What makes this particularly striking is that high, albeit declining, homeownership rates have not translated into affordability. A key reason is that incomes remain relatively low, while housing-related costs—including energy, maintenance, and renovation—have risen substantially. In addition, a large share of the housing stock is relatively old and energy-inefficient, which further increases the cost of living.

On the supply side, the legacy of the past decade is still visible. Construction activity has only partially recovered from the sharp contraction during the economic crisis, and investment in residential property remains well below pre-crisis levels and the euro area average. At the same time, higher construction costs, regulatory complexity, and delays in permitting continue to constrain new supply.

Demand, however, remains strong. It is supported not only by domestic factors—such as the gradual increase of disposable income in recent years, improved economic expectations and targeted government support schemes—but also by foreign investment, higher tourist flows in urban centres and the perception of real estate as a relatively safe asset. Importantly, a significant share of transactions is financed through household savings rather than bank credit, reinforcing the idea that housing demand is not highly sensitive to interest rates, as many buyers are using their own accumulated wealth to purchase properties rather than relying on mortgages.

Government policies have increasingly aimed to address these challenges. Measures such as subsidised mortgage programmes, rent support schemes, temporary tax incentives for renting out vacant properties and incentives for renovation or utilisation of vacant properties are steps in the right direction. There are also initiatives to increase social housing by leveraging public assets in partnership with the private sector. However, these policies take time to bear fruit, and affordability pressures are likely to persist in the near term.

At this point, it is important to recognize that housing affordability is not only a social and macroeconomic challenge but also reflects deeper structural features of European financial markets and household investment patterns.

In the case of Greece, housing insecurity has increasingly emerged as a factor affecting long-term demographic trends. Limited access to affordable housing delays household formation, particularly among younger generations. Many young adults end up remaining in the parental home for longer than they would otherwise choose, while others postpone or reconsider decisions related to family formation altogether.

This has broader macroeconomic implications. A shrinking and ageing population reduces the size of the labour force, weighs on long-term growth potential, and increases pressure on public finances. In this sense, housing affordability interacts directly with demographic sustainability and economic resilience.

Returning to the broader question: *what can central banks do in such an environment?*

Traditionally, central banks have not been directly responsible for managing housing affordability. Their primary mandate has been to maintain price stability, while also contributing to financial stability and the resilience of the financial system. However, as housing increasingly impacts the broader economy, central banks can no longer afford to remain entirely passive.

One key challenge is that when housing demand is driven by cash buyers and investment motives, conventional monetary policy becomes less effective. Raising interest rates may have only a limited impact on such demand, while potentially slowing down the broader economy.

This raises important questions about policy transmission. If interest rate changes do not significantly influence housing demand, additional tools or complementary policies may need to be considered.

From a financial stability perspective, macroprudential policy can play an important role. While its primary objective is to mitigate systemic risks and strengthen the resilience of the banking sector, the design of such measures may also support housing affordability in a socially balanced manner.

In particular, borrower-based measures - such as loan-to-value and debt service-to-income limits - are intended to preserve prudent lending standards and prevent excessive household indebtedness. At the same time, their calibration can take broader social considerations into account. More accommodative conditions for first-time buyers may support access to homeownership, while stricter limits for second or investment properties may help contain speculative demand and buy-to-let activity.

There is also scope for targeted flexibility. Carefully designed exemptions for specific categories - such as social housing schemes or energy-efficiency renovations - can help align macroprudential policy with broader public policy objectives without undermining financial stability.

In addition, capital-based measures, including the countercyclical capital buffer or sectoral systemic risk buffers, may help moderate housing-related credit cycles when property price increases are increasingly driven by leverage. By strengthening banking sector resilience and discouraging excessive risk-taking, such tools can contribute to a more sustainable evolution of housing markets over time.

Beyond macroprudential policy, promoting the Savings and Investment Union is of utmost importance. By deepening European capital markets and broadening alternative

investment opportunities, Europe could gradually reduce the structural preference for real estate as a store of wealth, thereby alleviating persistent demand pressures in housing markets.

Finally, enhanced transparency and stronger safeguards against the use of undeclared funds in real estate transactions can contribute to healthier market functioning and help limit non-fundamental demand pressures.

At the same time, it must be emphasized that central banks cannot solve this problem alone. Housing affordability is fundamentally shaped by supply-side conditions, fiscal policy, and structural factors. Increasing housing supply, improving the efficiency of planning systems, and better utilising existing housing stock are all essential components of the solution.

Ultimately, the question of housing is not only about prices, markets, or policy instruments. It is about whether our economies provide a credible path forward for the next generation. If access to affordable housing becomes increasingly uncertain, the consequences extend far beyond the housing market. They affect productivity, social cohesion, and economic growth prospects.

For this reason, the role of policymakers, including central banks, is not to solve the housing problem in isolation, but to ensure that their policies do not inadvertently reinforce these imbalances, and wherever feasible, contribute to a more balanced distribution of resources.

Ultimately, a sustainable economy relies not just on stable prices, but on creating a sense of stability and opportunity for those who will shape its future.

Thank you.