Figure 2.2. House Prices and Financial Stability

Accumulation of vulnerability in the housing sector under easy financial conditions ... may result in a vicious cycle between the housing, financial, and real economic sectors.

Easy financial conditions → Good real economic performance

Adverse shock

Tight financial conditions ← Decline in real economic activity

Housing Sector

Excessive household leverage

Overvaluation in house prices

Housing Sector

Deleveraging in household debt

House price declines with fire sales

Source: IMF staff.