



Press release

23 September 2019

ESRB issues five warnings and six recommendations on medium-term residential real estate sector vulnerabilities

The European Systemic Risk Board (ESRB) has today published a set of country-specific warnings and recommendations on medium-term vulnerabilities in the residential real estate sector. The ESRB has a mandate to issue warnings when significant systemic risks are identified and to provide recommendations for remedial action to address such risks. The warnings were sent to the competent ministers of the following five countries: the [Czech Republic](#), [Germany](#), [France](#), [Iceland](#) and [Norway](#)¹. Similarly, the recommendations were sent to the competent ministers of the following six countries: [Belgium](#), [Denmark](#), [Luxembourg](#), [the Netherlands](#), [Finland](#) and [Sweden](#)².

The ESRB decided to issue the warnings and recommendations following a systematic, forward-looking European Economic Area (EEA)-wide assessment of residential real estate. The ESRB assessed the residential real estate sector in all EU Member States, Iceland, Liechtenstein and Norway, concluding that vulnerabilities exist in the eleven countries mentioned above. These vulnerabilities may be a source of systemic risk to financial stability in the medium term. Consequently, the ESRB decided on 27 June 2019 to issue warnings and recommendations and to make them public. The recommendations were issued to those countries in receipt of 2016 ESRB warnings whose vulnerabilities are not being sufficiently addressed. Countries with vulnerabilities that have been newly identified as not being sufficiently addressed received the warnings. As regards the remaining EU Member States, the ESRB has either not identified a build-up of any material vulnerabilities relating to the residential real estate sector, or such vulnerabilities have been identified but the current policy

¹ Czech Republic (Warning/ESRB/2019/10); Germany (Warning/ESRB/2019/11); France (Warning/ESRB/2019/12); Iceland (Warning/ESRB/2019/13); and Norway (Warning/ESRB/2019/14).

² Belgium (Recommendation/ESRB/2019/4); Denmark (Recommendation/ESRB/2019/5); Luxembourg (Recommendation/ESRB/2019/6); the Netherlands (Recommendation/ESRB/2019/7); Finland (Recommendation/ESRB/2019/8); and Sweden (Recommendation/ESRB/2019/9).

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stance is assessed as sufficient in addressing them. This is the case of Estonia, Ireland, Malta, Austria, Portugal, Slovakia and the United Kingdom.

The key vulnerabilities highlighted by the ESRB assessment are of a medium-term nature and relate to high or rising household indebtedness and the ability of households to repay their mortgage debt, the growth of mortgage lending and the loosening of lending standards, and the valuation or price dynamics of residential real estate. In many of the countries receiving warnings and recommendations, vulnerabilities are related to the level of household indebtedness, the growth of mortgage credit and signs of loosening of lending standards. Some countries also have vulnerabilities related to house price growth or the overvaluation of residential real estate. The ESRB also performed an analysis of the risks associated with the banking sector's exposure to residential real estate. At this moment in time, the ESRB has not identified significant direct near-term risks arising from residential real estate exposures in the banking systems of the countries receiving warnings and recommendations, although second-round effects cannot be excluded in the medium term. Moreover, these countries have taken steps to ensure the resilience of their banking sectors, for example through an increase in bank capital requirements in recent years. In most of these countries, however, medium-term vulnerabilities are generated by a combination of vulnerabilities related to household indebtedness and house price levels and dynamics. The exact vulnerabilities vary for the countries receiving the ESRB warnings and recommendations. Further details can be found in the texts of the warnings and recommendations.

Full details of the ESRB's assessment are included in the ESRB report [“Vulnerabilities in the residential real estate sectors of the EEA countries”](#), which has been published today alongside the warnings and recommendations. The assessment of vulnerabilities is based on available data and covers developments up to the end of March 2019.

The ESRB has also published [“Methodologies for the assessment of real estate vulnerabilities and macroprudential policies: residential real estate”](#). This report documents the quantitative framework developed by the ESRB Working Group on Real Estate Methodologies for the assessment of both residential real estate vulnerabilities and related macroprudential policies across EU countries, in terms of appropriateness and sufficiency. The report provides the analytical framework for the ESRB's EEA-wide assessment of vulnerabilities relating to residential real estate.

Additionally, the ESRB has published a [follow-up report on the countries that received ESRB warnings in 2016 concerning medium-term vulnerabilities in their residential real estate sectors](#). The report reviews the [evolution of the vulnerabilities since 2016](#), as well as the policy responses aimed at mitigating the vulnerabilities, in Belgium, Denmark, Luxembourg, the Netherlands, Austria, Finland, Sweden and the United Kingdom.

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The ESRB monitors compliance with its recommendations via an “act or explain” mechanism.

The sub-recommendations contained in each recommendation have a specific timeline for implementation (ranging from 2020 to 2022). Thereafter, the ESRB will assess compliance. Furthermore, the countries receiving warnings are also expected to report back to the ESRB within one year to confirm whether the identified vulnerabilities have been mitigated or not.

Going forward, the ESRB will continue exercising its mandate of macroprudential oversight of the financial system in the EU Member States, Iceland, Liechtenstein and Norway, including identifying financial stability vulnerabilities related to real estate. The ESRB will continue to issue warnings if a significant systemic risk to financial stability is identified and, where appropriate, issue recommendations for remedial action.

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