



PRESS RELEASE

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The ESRB issues eight Warnings on medium-term residential real estate vulnerabilities and a Recommendation on closing real estate data gaps

Today the European Systemic Risk Board (ESRB) has published a set of country-specific warnings on medium-term vulnerabilities in the residential real estate sector. The warnings are addressed to the relevant ministers in the following eight Member States: Austria, Belgium, Denmark, Finland, Luxembourg, the Netherlands, Sweden and the United Kingdom.¹ The ESRB has a mandate to issues warnings when significant systemic risks are identified and when necessary to flag such risks.

The ESRB decided to issue these warnings following a forward-looking Union-wide assessment of vulnerabilities relating to residential real estate. The ESRB assessed vulnerabilities related to residential real estate in all Member States and concluded that vulnerabilities prevail in the above-mentioned eight Member States. These vulnerabilities may be a source of systemic risk to financial stability in the medium term. Consequently, the ESRB decided on 22 September 2016 to issue warnings to the eight Member States and to make these warnings public.

As regards the remaining 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 stance is sufficient in addressing them; the latter is the case for Estonia and Slovakia. For the United Kingdom, the ESRB has not assessed whether policies in place are appropriate and sufficient given the uncertain impact of the vote to leave the European Union on the medium-term outlook for the UK housing market.

The key vulnerabilities highlighted by the ESRB assessment are of a medium-term nature and relate to the rising indebtedness and ability of households to repay their mortgage debt or to the valuation or price dynamics of residential real estate. Regarding households, in many of the countries

¹ Austria (Warning ESRB/2016/05); Belgium (Warning ESRB/2016/06); Denmark (Warning ESRB/2016/07); Finland (Warning ESRB/2016/08); Luxembourg (Warning ESRB/2016/09); the Netherlands (Warning ESRB/2016/10); Sweden (Warning ESRB/2016/11); and the United Kingdom (Warning ESRB/2016/12).

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receiving warnings, vulnerabilities are related to the level of indebtedness or the growth of mortgage credit. Regarding valuation, some countries have vulnerabilities related to the rate of price growth or overvaluation of residential real estate. The ESRB performed an analysis of risks to the banking system from residential real estate. At this time, the ESRB has not identified direct near-term risks arising from residential real estate exposures in the banking systems of the warned countries, although second-round effects are not excluded in the medium term. Moreover, Member States have taken steps to ensure the resilience of their banking sectors, for example through the increase in bank capital requirements in recent years. In most of the warned countries, however, medium-term vulnerabilities are generated by a combination of household indebtedness and price dynamics. The exact vulnerabilities vary for the Member States that have received an ESRB warning; further details can be found in the warnings and the supporting assessment.

Full details of the ESRB's assessment are included in the ESRB report Vulnerabilities in the EU residential real estate sector, which has been published today alongside the warnings. The assessment of vulnerabilities is based on available data and covers developments up to mid-September 2016.

Today the ESRB has also published a recommendation on closing real estate data gaps (Recommendation ESRB/2016/14). The recommendation was adopted by the ESRB on 31 October. Earlier work by the ESRB identified the significance of developments in the real estate sector for financial stability and the considerable data gaps that continue to exist in this area. With this recommendation, which covers both the residential and commercial real estate sectors, the ESRB aims to establish a more harmonised framework for monitoring developments in real estate markets in the European Union. The recommendation therefore provides a common set of indicators that national macroprudential authorities are recommended to monitor in assessing risks originating from the real estate sector along with working definitions of these indicators. The ESRB monitors compliance with its recommendations via an "act or explain" mechanism. The deadline for implementing the recommendation on closing real estate data gaps is end-2020. As follow-up work to the recommendation, the ESRB is of the view that a regular data collection on these indicators should take place at EU level and that the European Central Bank is well placed to play a leading role in this.

Going forward, the ESRB will continue exercising its mandate of macroprudential oversight of the financial system in the European Union, 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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