



ESRB

European Systemic Risk Board

European System of Financial Supervision

Press release

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ESRB issues new warnings and recommendations on medium-term residential real estate vulnerabilities

The European Systemic Risk Board (ESRB) has today published five warnings and two recommendations on medium-term residential real estate vulnerabilities. It has also published an assessment of compliance with recommendations issued in 2019. Warnings were sent to the competent ministers of five countries with newly identified vulnerabilities that have not been addressed sufficiently: **Bulgaria, Croatia, Hungary, Liechtenstein** and **Slovakia**. Recommendations were sent to the competent ministers of two countries, **Austria** and **Germany**, which had already received ESRB warnings in **2016** and **2019**, respectively, and whose vulnerabilities have not been addressed sufficiently. After these recommendations were issued, the authorities in Austria and Germany announced new measures to address vulnerabilities in the residential real estate sector.

The ESRB assesses vulnerabilities in the residential real estate sector because of its importance for financial and macroeconomic stability. In **2016** and **2019**, the ESRB conducted systematic, forward-looking assessments of such vulnerabilities in the European Economic Area (EEA). Recently, the ESRB concluded another assessment of this sector in the EEA, which formed the basis for the latest set of country-specific warnings and recommendations. The ESRB has a mandate to issue such warnings when significant systemic risks are identified and to make recommendations for remedial action.

The assessment covered all EU Member States, Iceland, Liechtenstein and Norway and analysed the main trends in various real estate indicators as well as the macroprudential policy actions that countries have taken to mitigate the financial stability risks identified. The outcome of this analysis shows that financial stability risks related to residential real estate have continued to increase in several countries in the context of macroeconomic risks related to the coronavirus (COVID-19) pandemic and continued strong dynamics in housing markets, housing credit and household indebtedness.

The key vulnerabilities highlighted by the ESRB assessment are of a medium-term nature and, depending on the country, relate to rapid house price growth and possible overvaluation of residential real estate, the level and dynamics of household indebtedness, the growth of housing credit and signs of a loosening of lending standards. The specific vulnerabilities vary from country to country, and the details can be found in the individual warnings and recommendations. Beyond macroprudential policy considerations, in a number of countries, some underlying

vulnerabilities would be mitigated more efficiently with the help of reforms of housing and tax policies. In view of the economic uncertainty during the pandemic, any policy action should be carefully assessed to ensure that it contributes to mitigating residential real estate vulnerabilities, while aiming to avoid procyclical effects on the overall performance of the real economy and the financial system.

Residential real estate vulnerabilities have remained elevated in the countries that received ESRB recommendations in 2019. In a number of these countries, vulnerabilities have persisted in spite of recent measures introduced to address them. The latter countries are Denmark, Finland, Luxembourg, the Netherlands and Sweden. In most cases, house prices have continued rising or have grown even faster than before, resulting in unchanged or increased house price overvaluation. The risk related to household indebtedness has also remained unchanged or increased in several countries, partly as a result of strong mortgage credit growth. In most cases, lending standards for new mortgage loans have not significantly improved or have shown signs of deterioration.

For the remaining EEA countries, either the ESRB has not identified a build-up of material vulnerabilities in the residential real estate sector, or such vulnerabilities have been identified but the current policy stance is assessed as sufficient in addressing them.

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 mid-November 2021.

The ESRB has also published a [compliance report](#) on the countries that received ESRB recommendations in 2019 concerning medium-term vulnerabilities in their residential real estate sectors. The report reviews the policy responses aimed at mitigating the vulnerabilities in Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden. The ESRB monitors and assesses compliance with its recommendations via an "act or explain" mechanism. The ESRB recommendations issued in 2019 have a specific timeline for implementation (ranging from 2020 to 2022). Overall, the compliance assessment findings are as follows: one addressee is assessed as fully compliant (Luxembourg), three addressees are assessed as largely compliant (Belgium, Denmark and Sweden) and two addressees are assessed as partially compliant (Finland and the Netherlands).

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, will issue recommendations for remedial action.

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