



**ECB-CONFIDENTIAL**

Mr. W.B. Hoekstra  
Ministry of Finance  
Korte Voorhout 7  
Postbus 20201  
2500 EE Den Haag  
The Netherlands

10 July 2019  
ESRB/2019/0169

**Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in the Netherlands (ESRB/2019/7)**

Dear Hoekstra,

This is to inform you that on 27 June 2019, the General Board of the European Systemic Risk Board (ESRB) adopted Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential estate sector in the Netherlands (hereinafter "Recommendation ESRB/2019/7"). The General Board of the ESRB also adopted five other country-specific ESRB Recommendations, addressed to five other Member States that also received ESRB Warnings in 2016, on medium-term vulnerabilities in their respective residential real estate sector. Furthermore, on the same date, the General Board of the ESRB also adopted five country-specific ESRB Warnings, addressed to Member States in which vulnerabilities relating to the residential real estate sector as a source of systemic risk have been newly identified as not being sufficiently addressed.

Vulnerabilities relating to the residential real estate can be a source of systemic risk and may affect financial stability both directly and indirectly. In 2016, the ESRB conducted a Union-wide assessment of the vulnerabilities relating to residential real estate<sup>1</sup>. This assessment enabled the ESRB to identify a number of medium-term vulnerabilities in several countries as sources of systemic risk to financial stability, which led to the issuance of warnings to eight countries: Belgium<sup>2</sup>, Denmark<sup>3</sup>, Luxembourg<sup>4</sup>, the Netherlands<sup>5</sup>, Austria<sup>6</sup>, Finland<sup>7</sup>, Sweden<sup>8</sup> and the United Kingdom<sup>9</sup>.

- 
- <sup>1</sup> See 'Vulnerabilities in the EU Residential Real Estate Sector', ESRB, November 2016, available on the ESRB's website at [www.esrb.europa.eu](http://www.esrb.europa.eu).
- <sup>2</sup> Warning ESRB/2016/06 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Belgium (OJ C 31, 31.1.2017, p. 45).
- <sup>3</sup> Warning ESRB/2016/07 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Denmark (OJ C 31, 31.1.2017, p. 47).
- <sup>4</sup> Warning ESRB/2016/09 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Luxembourg (OJ C 31, 31.1.2017, p. 51).
- <sup>5</sup> Warning ESRB/2016/10 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of the Netherlands (OJ C 31, 31.1.2017, p. 53).
- <sup>6</sup> Warning ESRB/2016/05 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Austria (OJ C 31, 31.1.2017, p. 43).

**Address**  
ESRB  
Sonnemannstrasse 20  
60314 Frankfurt am Main  
Germany

**Postal address**  
ESRB  
60640 Frankfurt am Main  
Germany

Tel.: +49 69 1344 0  
E-mail: [esrbsecretariat@esrb.europa.eu](mailto:esrbsecretariat@esrb.europa.eu)  
[www.esrb.europa.eu](http://www.esrb.europa.eu)

In 2016 the main vulnerability identified in the residential real estate market in the Netherlands related to high household indebtedness, with a significant share of mortgagors having total debt exceeding the value of their home. This vulnerability reflected, among other things, that although the share of new amortising mortgage loans was increasing, a significant share of the existing mortgage loans was non-amortising – despite the fact that in 2016 there were no signs of overvaluation and house prices in major cities were returning to pre-crisis levels.

The ESRB has recently concluded a systematic and forward-looking European Economic Area (EEA)-wide assessment of vulnerabilities relating to residential real estate. As regards the Netherlands, this recent assessment has revealed that, since 2016, household indebtedness has decreased slightly and the share of new non-amortising mortgage loans has also continued to decrease. On the other hand, since 2016, house prices have continued to increase, leading to pockets of overvaluation in the major cities. Against this background, the loan-to-value (LTV) ratios of new mortgage loans have remained high, in particular because the regulatory limit of 100 % that applies to the LTV ratio does not require additional collateral for an event of a decrease in house prices. Moreover, the vulnerabilities posed by these developments with regard to financial stability have not been reflected in the application of risk weights for mortgage loans in the Netherlands, which are among the lowest in the EEA.

While acknowledging the measures that have already been introduced by the Dutch Government in this regard, even though the macroprudential authority in the Netherlands (*Financieel Stabiliteitscomité*) has recommended a further tightening of the legally binding limit that applies to the LTV ratio to 90 %, the Dutch Government, which is responsible for implementing such measures, has chosen not to follow this recommendation. Furthermore, since the current legal framework does not provide for an ‘act or explain’ mechanism for recommendations made by the macroprudential authority, the Dutch Government has not been formally required to explain its inaction to the macroprudential authority, but has only explained its position to the Dutch Parliament. However, in order to address the vulnerabilities identified in the Netherlands as regards pockets of overvaluation of house prices and the collateralisation of new mortgage loans, the limit that applies to the LTV ratio would need to be further reduced. Moreover, there are no macroprudential capital-based measures – for example higher risk weights for mortgage loans – currently in place to address the accumulated vulnerabilities related to the collateralisation of existing mortgage loans and the potential second-round effects related to household indebtedness.

Furthermore, although the debt-service-to-income (DSTI) ratio for mortgage loans has important risk mitigating characteristics, such as assumptions about potential increases in interest rates, certain elements of the current methodology for calibrating the limit that applies to the DSTI ratio in the Netherlands reduce the effectiveness of the measure and may increase its procyclical effects on the financial and economic cycles. While some adjustments (such as the use of four-year averages of the calculated ratios as inputs for the calibration) have been made to address the procyclical elements of the methodology, certain of these elements remain.

Moreover, while cyclical factors play an important role in fuelling the vulnerabilities identified in the Netherlands, there are also structural factors that have driven these vulnerabilities, resulting in a higher level of systemic risk. These factors include: (i) a lack of housing supply, which has been exerting upward pressure on house prices and debt for households that buy their own property; and (ii) the tax deductibility of interest paid on mortgage loans, which may act as an incentive for households to overborrow.

The General Board of the ESRB, having assessed the results of the risk and policy analyses carried out, has concluded that the macroprudential measures that are in place in the Netherlands are partially appropriate and partially sufficient to

<sup>7</sup> Warning ESRB/2016/08 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Finland (OJ C 31, 31.1.2017, p. 49).

<sup>8</sup> Warning ESRB/2016/11 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Sweden (OJ C 31, 31.1.2017, p. 55).

<sup>9</sup> Warning ESRB/2016/12 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of the United Kingdom (OJ C 31, 31.1.2017, p. 57).

address the vulnerabilities related to household indebtedness in the medium term. Consequently, further policy action is required to address these vulnerabilities, which can be a source of systemic risk.

For this reason, the General Board of the ESRB decided to issue a Recommendation to the Netherlands on medium-term vulnerabilities in its residential real estate sector. The purpose of Recommendation ESRB/2019/7 is to recommend: a) the establishment in Dutch law of an 'act or explain' mechanism in relation to recommendations issued by the macroprudential authority on the activation of legally binding borrower-based measures; (b) the tightening of the existing legally binding limit that applies to the LTV ratio; (c) an amendment to the methodology for determining the maximum limit that applies to the DSTI ratio; and (d) the activation of capital-based measures in order to ensure the resilience of the banking sector in relation to the medium-term vulnerabilities identified in the Netherlands. In addition, Recommendation ESRB/2019/7 also aims to emphasise the need for broader policy action aiming to curb factors which facilitate or promote increasing household indebtedness. The measures proposed in Recommendation ESRB/2019/7 are aimed at complementing the existing macroprudential measures in the Netherlands. Given that the vulnerabilities are, to some extent, driven by structural factors which go beyond macroprudential policy, other policies are needed to complement and support the current macroprudential measures, with the aim of addressing factors contributing to the build-up of systemic risks in the residential real estate market in the Netherlands more efficiently and effectively, without producing excessive costs for the Dutch real economy and financial system.

In line with Article 18(2) of Regulation (EU) No 1092/2010<sup>10</sup>, I would hereby like to inform you that Recommendation ESRB/2019/7 will be published on the ESRB's website and later in the *Official Journal of the European Union*. In addition, in line with Article 18(3) of Regulation (EU) No 1092/2010, addressees of public recommendations have the right to make public their views and reasoning on the matter. Should you wish to utilise this right, you are kindly invited to submit to the ESRB Secretariat any views and reasoning that you may have on the matter by 9 September 2019.

Please also note that the following reports, adopted by the ESRB on 27 June 2019, will be made available electronically:

- "Follow-up report on countries which received ESRB warnings in 2016 for medium-term vulnerabilities in the residential real estate sector";
- "Methodologies for the assessment of real estate vulnerabilities and macroprudential policies – residential real estate"; and
- "Vulnerabilities in the residential real estate sectors of the EEA countries".

Yours sincerely,

  
Francesco Mazzaferro

Head of the ESRB Secretariat

*Enclosed:*

*Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential estate sector in the Netherlands (ESRB/2019/7)*

---

<sup>10</sup> Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).

