



**ESRB**

European Systemic Risk Board

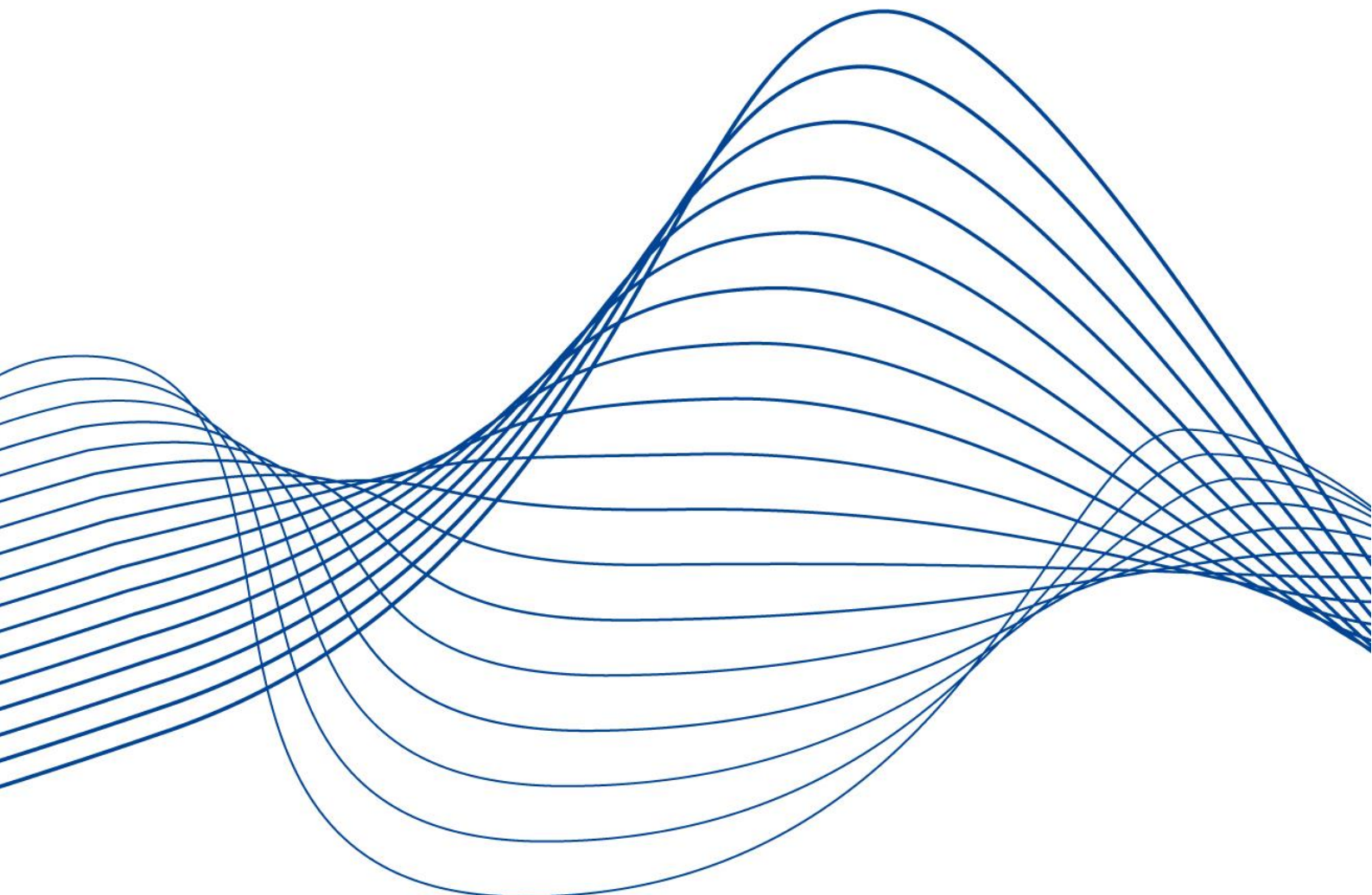
European System of Financial Supervision

**ECB- Restricted**

**Follow-up to the Recommendation ESRB/2019/7 on  
medium-term vulnerabilities in the residential real estate sector  
in the Netherlands  
Recommendation A and sub-recommendation B(2)**

Reporting deadline: **31 March 2021**

Addressee:  
**The Netherlands**



## Introduction

<b>Legal instrument</b>	Recommendation ESRB/2019/7 on medium-term vulnerabilities in the residential real estate sector in the Netherlands
<b>Reporting institution</b>	The Ministry of Finance
<b>Date of reporting</b>	31 March 2021
<b>Confidentiality regime*</b>	Public
<b>Name and contact details of the respondent</b>	

\* Please indicate the level of confidentiality you wish to apply to the responses provided herein.

### Timeline for completing the template and submitting the follow-up report

The purpose of this template is to request the Netherlands to provide the ESRB with a follow-up report on the implementation of Recommendation A and sub-Recommendation B(2) of Recommendation ESRB/2019/7 (hereinafter the 'Recommendation'), due by **31 March 2021**.

The addressee is kindly invited to complete this template, summarising the actions taken to comply with the Recommendation or providing adequate justification for inaction. The addressee is expected to provide relevant information and documentation related to the implementation of the Recommendation, including information on the substance and timing of the actions taken.

### Instructions to addressee

The addressee should submit the completed template to the ESRB via the ESRB Secretariat. Subsequently, the ESRB Secretariat will arrange for the transmission of the final report to the Commission, the Council and the European Parliament in accordance with Article 17(1) of Regulation No 1092/2010<sup>1</sup>.

For the purposes of reporting to the ESRB, the completed template should be sent to the ESRB Secretariat electronically via DARWIN in the dedicated folder or by email to [notifications@esrb.europa.eu](mailto:notifications@esrb.europa.eu) by **31 March 2021**:

<https://darwin.escb.eu/livelink/livelink?func=ll&objId=321233790&objAction=browse&viewType=1>

The required follow-up report by the addressee should contain a reference to all the details referred to in the Recommendation.

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<sup>1</sup> OJ L 331, 15.12.2010, p. 1

<b>Content of Recommendation</b>	<b>Recommendation A</b>
	<p style="text-align: center;"><b>Legal framework for borrower-based measures</b></p> <p>It is recommended that the Netherlands ensure that the recommendation powers of the macroprudential authority over all applicable legally binding borrower-based measures are complemented by an ‘act or explain’ mechanism, or alternatively, where this is not possible under Dutch law, that an accountability mechanism is established in order to make public the views of the authority responsible for the application of borrower-based measures following a recommendation issued by the macroprudential authority in the Netherlands.</p>
<b>Addressee</b>	<b>The Netherlands</b>
<b>Deadline</b>	<b>31 March 2021</b>
<p><b>1. Timeline:</b></p> <p>Please indicate the time period when the actions requested under the Recommendation were taken.</p> <p><i>[Article 2(a) of Section 2.2 of the Recommendation]</i></p>	<p>Please refer to section 4 below.</p>

**2. Actions taken:**

Please describe the substance of the actions taken to comply with the Recommendation, including how you ensured that the recommendation powers of the macroprudential authority over all applicable legally binding borrower-based measures are complemented by an 'act or explain' mechanism, or alternatively, where this is not possible under Dutch law, that an accountability mechanism is established in order to make public the views of the authority responsible for the application of borrower-based measures following a recommendation issued by the macroprudential authority in the Netherlands.

*[Article 2(a) of Section 2.2 of the Recommendation]*

Please refer to section 4 below.

Recommendation A	
<p><b>1. Compliance criterion:</b></p> <p>Please describe how you applied the principle of proportionality, taking into account the objective and content of this recommendation.</p> <p><i>[Article 1(a) of Section 2.2 of the Recommendation]</i></p>	<p>Please refer to section 4 below.</p>
<p><b>2. Compliance criterion:</b></p> <p>Please include the assessment of the vulnerabilities related to pockets of overvaluation of house prices and the collateralisation of new and existing mortgage loans with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board<sup>2</sup>, together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation.</p> <p><i>[Article 2(b), Section 2(2) of the Recommendation]</i></p>	

<sup>2</sup> Recommendation ESRB/2016/14 of the European Systemic Risk Board of 31 October 2016 on closing real estate data gaps (OJ C 31, 31.1.2017, p. 1).

<p><b>3. Self-assessment:</b></p> <p>In case of action, please provide a self-assessment on whether you consider the actions undertaken are fully compliant, largely compliant, partially compliant, materially non-compliant or non-compliant with the Recommendation.</p>	<p>This section is inapplicable. Please refer to the next section (4).</p>
<p><b>4. Justifications:</b></p> <p>Please provide, as appropriate, justifications for (i) inaction, (ii) delays in action and (iii) departure from the recommendation, as may be relevant. Please provide a self-assessment on whether the inaction is sufficiently or insufficiently explained.</p> <p><i>[Article 2(c) of Section 2.2 of the Recommendation]</i></p>	<p>Action on the recommendation has been delayed due to the following. The Dutch government has legislation in preparation that provides for the embedding of the Financial Stability Committee (FSC) in primary law. Before a draft Bill can be formally introduced in Parliament, the Dutch Council of State – the state’s supreme advisory body on legislation – must be consulted by the cabinet on the Bill. The Council of State has recently delivered its opinion on the draft Bill, in which it has levied significant criticism on the proposed legal status and powers of the FSC. The Dutch government is currently exploring possible amendments to the proposal that would adequately address the concerns expressed by the Council of State.</p> <p>Separate from possible embedding in primary law, the power of the FSC to issue recommendations will not be complemented by an ‘act or explain mechanism’ as this would not fit in with the Dutch constitutional system. An alternative accountability mechanism is therefore in place. Recommendations issued by the FSC are forwarded to Parliament, where the responsible ministers may be questioned. Current practice shows that this mechanism functions well within the confines of the national institutional arrangements, and serves to enhance public accountability and transparency with regard to both the functioning of the FSC and the follow-up action on its recommendations.</p>
<p><b>5. Additional information:</b></p> <p>Please provide other information that is not otherwise covered in the present document and that is relevant for the purposes of the follow-up assessment.</p> <p>Please also attach any relevant documents (if applicable).</p>	

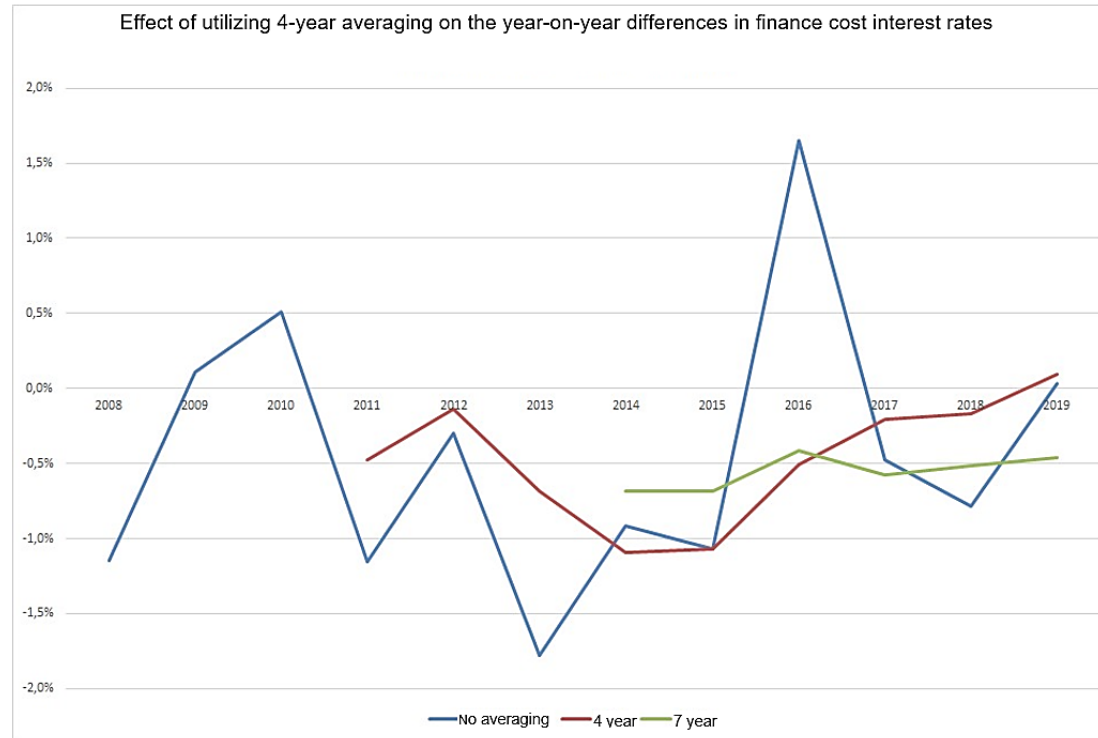
<b>Content of sub-recommendation</b>	<p style="text-align: center;"><b>Sub-recommendation B(2)</b></p> <p style="text-align: center;"><b>Tightening of borrower-based measures and approach to calibration</b></p> <p>It is recommended that the Netherlands change the methodology for determining the maximum limit that applies to the DSTI ratio so that the measure does not lead to increasing procyclicality of the economic and financial cycles.</p>
<b>Addressee</b>	<b>The Netherlands</b>
<b>Deadline</b>	<b>31 March 2021</b>
<p><b>1. Timeline:</b></p> <p>Please indicate the time period when the actions required under the relevant sub-recommendation were taken.</p> <p><i>[Article 2(a) of Section 2.2 of the Recommendation]</i></p>	<p>The methodology for determining the DSTI limits that is currently utilised has been subject to evaluation in 2019, including the use of four-year averages of the calculated DSTI percentages with regard to potential procyclical effects. In the reporting on October 2019, Nibud concluded that using a 4-year average methodology results an optimal balance between counteracting pro-cyclicality through managing volatility while maintaining a degree of economic responsiveness.</p>
<p><b>2. Actions taken:</b></p> <p>Please describe the substance of the actions taken to comply with the Recommendation, including whether the methodology of determining the maximum limit that applies to the DSTI ratio changed to ensure that the measure does not lead to increasing procyclicality of the economic and financial cycles. Moreover, please describe whether the change in the methodology, as envisaged under</p>	<p>Please refer to the preceding section (1) Timeline for elaboration on inaction.</p>

<p>Recommendation B(2), has had the desired effect.</p> <p><i>[Article 2(a) of Section 2.2 of the Recommendation]</i></p>	
<b>Sub-recommendation B(2)</b>	
<p><b>1. Compliance criterion:</b></p> <p>Please describe how you applied the principle of proportionality, taking into account the objective and content of the Recommendation.</p> <p><i>[Article 1(a) of Section 2.2 of the Recommendation]</i></p>	<p>The Dutch government deems the currently instituted methodology behind the DSTI-ratio to be effective in mitigating the systemic risks and counteracting of procyclicality. The recent evaluation concluded that the current utilized methodology results in the optimal balance of economic-responsiveness and countering-procyclicality.</p>
<p><b>2. Compliance criterion:</b></p> <p>Please include the assessment of the vulnerabilities related to pockets of overvaluation of house prices and the collateralisation of new and existing mortgage loans with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board<sup>3</sup>, together with the</p>	<p>Please refer to section (1): Timeline for description of considerations for appropriate measures.</p>

<sup>3</sup> Recommendation ESRB/2016/14 of the European Systemic Risk Board of 31 October 2016 on closing real estate data gaps (OJ C 31, 31.1.2017, p. 1).



<p>functioning of the actions undertaken, having regard to the objectives of this Recommendation.</p> <p><i>[Article 2(b), Section 2(2) of the Recommendation]</i></p>	
<p><b>3. Compliance criterion:</b></p> <p>Please include the assessment of the potential procyclical effects of different elements of the methodology used for calibration of the limit that applies to the DSTI ratio.</p> <p><i>[Par. 2 of Recommendation B, Annex I]</i></p>	<p>The DSTI limits determine the maximum percentage of gross annual income a household can spend on mortgage loan payments (interest and amortisation). These limits are determined annually based on advice from the independent National Institute for Family Finance Information (Nibud). Nibud considers a wide range of variables in determining the discretionary spending limits of the average household in relation to their annual income. These variables include taxes, basic expenditures related to necessities and additional spending based on actual data of household consumption patterns.</p> <p>Since 2017, the DSTI-limits are based on the average of the outcome of the aforementioned calculations performed by Nibud for the years t-1, t-2, t-3 and t-4. As a result, changes in the fiscal framework, price level and consumption patterns of households only gradually affect the DSTI-limit. This mitigates shocks to the DSTI-limits and moderates the procyclicality of the methodology. An increase in purchasing power does not immediately translate to a loosening of DSTI-limits due to the averaging, and decreasing purchasing power does not immediately lead to tightening. In 2017, an averaging over four years was chosen. Elements of the methodology have been subject to evaluation by Nibud in 2019, including the use of four-year averages of the calculated DSTI percentages. To this end, they have compared the borrowing cost percentages calculated on the situation of the individual years with a four-year average and 7-year average of those borrowing cost percentages. The figure below was shown in the evaluation performed by Nibud.</p>



The figure shows that using the four-year average has led to a more stable development of the DSTI-limit. While averaging over a period of 7 years results in even fewer fluctuations, the result of averaging over 7-year period is also that the financing cost percentage calculated in this way deviates further from the current percentage (no averaging), as the figure shows. The evaluation concluded that reducing the number of years used to calculate the averages would result in an increase in annual volatility of the DSTI limits and consequently increased pro-cyclicality. On the other hand, using more years resulted in even more stable DSTI limits but also led to a marked diminishing of economic responsiveness and overly disjointedness between current market dictated and averaged maximum allowed monthly payments on repayment and interest. Hence, rather stable DSTI limits could lead to overleveraging on consumer level. Using a 4-year average methodology was found to be an optimal balance between promoting anti-cyclicality through managing volatility while maintaining a degree of economic responsiveness. Based on these findings the Dutch government decided that they would continue to use the four-year averages.

<p><b>4. Self-assessment:</b></p> <p>In case of action, please provide a self-assessment on whether the actions undertaken are fully compliant, largely compliant, partially compliant, materially non-compliant or non-compliant with sub-recommendation B(2).</p>	<p>This section is inapplicable (please refer to section (1) Timeline).</p>
<p><b>5. Justifications:</b></p> <p>Please provide, as appropriate, justifications for (i) inaction, (ii) delays in action, or (iii) departure from sub-recommendation B(2), as may be relevant. Please provide a self-assessment on whether the inaction is sufficiently or insufficiently explained.</p> <p><i>[Article 2(c) of Section 2.2 of the Recommendation]</i></p>	<p>The methodology behind the DSTI-ratios was evaluated recently. Due to the findings of this evaluation, the Dutch government has seen no cause for alteration of the methodology.</p>
<p><b>6. Additional information:</b></p> <p>Please provide other information that is not otherwise covered in the present document and that is relevant for the purposes of the follow-up assessment.</p> <p>Please also attach any relevant documents (if applicable).</p>	<p>For the Nibud reporting on the evaluation of the 4-year averaging methodology please refer to (page 59 and 60):</p> <p><a href="#">Nibud-Advies-financieringslastnormen-2020-.pdf</a></p>