Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries

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ESRB
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Contents

Executive summary

In recent years, the European Systemic Risk Board (ESRB) has regularly assessed residential real estate (RRE) vulnerabilities in the European Economic Area (EEA) countries and the extent to which they are addressed by macroprudential policies. As a policy response, the ESRB has issued several warnings and recommendations to countries in which RRE vulnerabilities could be a source of risk to financial stability in the medium term. The last exercise was concluded at the end of 2021 and was followed by ESRB recommendations to Germany and Austria and warnings to Bulgaria, Croatia, Hungary, Liechtenstein and Slovakia.

In the light of the high inflationary environment and monetary tightening, which led to a turnaround in real estate cycles in most EEA countries and were expected to weigh on the ability of households to service their debt, an update of the RRE assessment became one of the ESRB's priorities in 2023. The update focuses on changes in financial stability risks and macroprudential policy since the end of 2021. Unlike in the previous ESRB assessment of RRE vulnerabilities, an in-depth risk and policy assessment was conducted for all the individual EEA countries.

The results show that the level of accumulated risks ("stock risks") remains significant in most EEA countries. However, the growth of cyclical risks has decelerated or stopped in most EEA countries (Table 1). In several countries, RRE prices slowed or began levelling off in late 2022 and early 2023. In many other countries, prices continued to rise, but the granting of RRE loans slowed. In line with what has been observed historically, this may signal that some levelling off in prices might also follow in these countries. In a few countries, especially those with a lower level of accumulated vulnerabilities, RRE prices or loans continued to rise significantly, despite decreasing volumes of new mortgage loans in most cases. In some countries that had previously seen a slowdown or a levelling off, quarterly house prices stopped decreasing or rebounded in mid-2023.

Compared with 2021, the risk assessment has remained unchanged for most EEA countries. So far, the levelling off in the RRE markets has been too short-lived to bring down the level of accumulated risks significantly. Overall, the assessment of stock risks and the overall risk assessment are the same as in 2021 for all EEA countries.

The forward-looking risk assessments remain scenario dependent, as uncertainty is high (Figure 1). Under a baseline scenario, such as the European Commission Autumn 2023 Forecast, an orderly correction of RRE prices and credit developments may continue in the next few quarters, which could be beneficial for financial stability in the long run. However, according to the same forecast, economic growth is expected to pick up and inflation to moderate in most EU countries in 2024. In the event of these favourable economic developments, RRE vulnerabilities may start building up again in the medium term. This would require readiness to activate all necessary macroprudential tools in order to avoid the build-up of vulnerabilities. Under the adverse scenario, for example, stagnating growth with higher interest rates on mortgage loans and rising unemployment, coupled with persistently high inflation, may make it even harder for households to pay back their housing loans. This might lead to a sizeable rise in credit risk, a further tightening of financing conditions or even a credit crunch, and possibly a disorderly correction of RRE prices, partly fuelled by an increasing number of foreclosures on residential properties. As the EU banking system has proved to be resilient, a major correction, including adverse developments in the labour market, would be needed to result in sizeable losses from banks' mortgage portfolios. However, household consumption and confidence remain key channels through which RRE risks may initially materialise. Therefore, the risks are more prevalent in countries with more significant macroeconomic risks, as well as high levels of household indebtedness and a large proportion of variable interest rate loans.

Since 2021, several countries have been activating macroprudential policies to mitigate risks related to RRE markets and increase lender and borrower resilience (Table 2). In particular, a number of countries have continued to (re)build capital buffers by either increasing countercyclical capital buffer (CCyB) rates or introducing a sectoral systemic risk buffer (SyRB). A few countries have also acted by using borrower-based measures (BBMs), switching from recommendations to legally binding measures, or introducing new legally binding measures or recommendations.

The current policy assessment was completed with only a few changes compared with 2021. The macroprudential policy mixes in five countries that received ESRB recommendations (Austria and Finland) or warnings (Hungary, Liechtenstein and Slovakia) in the past is now regarded as fully appropriate and sufficient while they were regarded as partially appropriate and partially sufficient in the previous assessment. For the other EEA countries included in the policy analysis in 2021, the policy assessment remains unchanged. This means that policies are regarded as partially appropriate and partially sufficient in Bulgaria, Croatia, Denmark, Germany and Luxembourg, and appropriate but partially sufficient in the Netherlands and Sweden. In all countries that have been newly added to the policy analysis this year, policies are assessed as fully appropriate and sufficient (Cyprus, Greece, Italy, Latvia, Romania and Spain).

The assessment also concludes that, in particular, the countries that have received ESRB recommendations or warnings in the past should continue addressing RRE vulnerabilities with macroprudential policies, as well as other measures. While doing so, countries should take into account the position in the economic and financial cycles and minimise the procyclical impact of any policy action. Other countries should be ready to continue building up capital buffers and/or tightening their BBMs, should RRE vulnerabilities again start increasing. All countries should continue monitoring RRE vulnerabilities very closely and take the opportunity of the current slowdown in RRE markets to continue making structural reforms beyond the macroprudential remit, which would remove upward pressures on house prices and incentives for households to take on debt. If necessary, countries should enhance the macroprudential toolkit in order to strengthen the ability of the authorities to address RRE-related vulnerabilities.

1 Introduction

The ESRB has regularly assessed vulnerabilities related to RRE markets in the EEA countries, the last assessment having been concluded in 2021. In 2016, the ESRB issued the first country-specific warnings in relation to medium-term RRE vulnerabilities. The countries that received warnings were Austria, Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden. In 2019, a new assessment showed that RRE vulnerabilities in most of these countries had not been sufficiently addressed by macroprudential or other policy measures. This led the ESRB to issue country-specific recommendations to Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden. In addition, five new countries received warnings: the Czech Republic, France, Germany, Iceland and Norway. The last assessment was concluded in 2021, at the end of the second year of the coronavirus (COVID-19) pandemic.[1] As a result of the assessment, the ESRB sent recommendations to Austria and Germany, along with warnings to Bulgaria, Croatia, Hungary, Liechtenstein and Slovakia. At the same time, the ESRB reiterated a number of vulnerabilities in countries which had previously received recommendations.

The current assessment is an update of the RRE assessment conducted by the ESRB in 2021. The 2021 assessment followed the ESRB methodology for assessing real estate vulnerabilities, including a comprehensive horizontal and country-specific analysis.[2] The horizontal risk analysis was conducted across different risk stretches (collateral, funding and household stretches) using a scoreboard of indicators for all EEA countries. The country-specific risk and policy analysis was conducted for a subset of countries for which the combination of vulnerabilities was signalling a material (i.e. medium or high) level of risk to financial stability in the medium term. The assessment also differentiated between accumulated risks ("stock risks") and risk dynamics ("flow risks"), as each may require slightly different policy responses. Given recent trends in the RRE markets, the previous assessment of flow risk has been substituted by an indication of changes in the RRE cycle ("continued expansion/slowdown or turning point/downturn") in the current assessment.[3] To this end, indicators from the original scoreboard have been supplemented by several transformations capturing the short-term dynamics of the RRE markets (most importantly, the annual and quarterly growth rates of RRE prices and mortgage loans).[4] Finally, on this occasion, all EEA countries have been included in the policy analysis.

The remainder of this report describes key developments in risks and policy measures since the last assessment and compares them with the situation in 2021.

1 See ESRB (2022), **Vulnerabilities in the residential real estate sectors of the EEA countries**, ESRB, February.

2 See ESRB (2019), **Methodologies for the assessment of real estate vulnerabilities and macroprudential policies: residential real estate**, ESRB, September.

3 According to the ESRB methodology, flow risks can be assessed as low, medium or high. Such an approach provides intuitive results when RRE vulnerabilities are increasing, i.e. when its dynamics are positive. During a correction in RRE markets, the flow risks would instead have to be assessed as "negative", as the imbalances are no longer increases. Such an assessment may be misleading, however, as it downplays the possibility of risk materialisation in the event of an adverse scenario.

4 In addition, real variables in the original scoreboard have been replaced by nominal ones, to prevent the recently very high inflation rates from distorting the picture.

2 Analysis of vulnerabilities

This section describes the results of the medium-term risk assessment of the individual countries. The assessment is forward looking and scenario dependent. Overall, it remains largely unchanged compared with 2021.

The key vulnerabilities identified in 2021 related to high or rising household indebtedness, the debt servicing capacity of households to repay their mortgages, the growth of lending, the loosening of lending standards and the overvaluation or growth of RRE prices (Table 4 in the Annex). Before the 2021 assessment was concluded, house prices had continued rising or had grown even faster than before in most EEA countries, resulting in unchanged or increased house price overvaluation. The risks related to household indebtedness remained unchanged or increased in several countries, partly due to strong mortgage credit growth. Amid these developments, lending standards for new mortgage loans did not significantly improve, and even showed signs of deterioration in countries where BBMs were not implemented. Specific vulnerabilities varied across countries, constituting direct and/or indirect risks to financial stability: direct risks are related to potential losses incurred by lenders from mortgage portfolios in the event of adverse economic developments. These risks tend to be associated with an overvaluation of house prices, loose mortgage lending standards and household indebtedness. Indirect risks are related to potential adjustments in household consumption in the event of adverse economic developments, with second-round effects on the real economy and financial stability. These risks are associated with household indebtedness, and while they do not necessarily materialise due to housing loan defaults, they may affect financial stability through the deterioration in the quality of other types of loans as a consequence of an economic downturn.

The assessment in 2021 concluded that RRE vulnerabilities were significant in most of the EEA countries and continued increasing rapidly (Table 4 in the Annex). The risk assessment was driven by accumulated ("stock") vulnerabilities, although it also took increasing ("flow") vulnerabilities into account. Countries with stock vulnerabilities were mostly classified as high or medium-risk countries for the purposes of the assessment. Countries with flow vulnerabilities, but for which the level of vulnerabilities was not yet viewed as significant, were considered to be medium-risk countries. In particular, the ESRB concluded that, in five countries which received ESRB recommendations or warnings in 2019 (Denmark, Luxembourg, the Netherlands, Norway and Sweden), the vulnerabilities related to RRE markets had remained high, while in six countries (Belgium, the Czech Republic, Finland, France, Germany and Iceland) the vulnerabilities were assessed as medium. Among the other EEA countries, 13 countries (Austria, Bulgaria, Croatia, Estonia, Hungary, Ireland, Liechtenstein, Lithuania, Malta, Poland, Portugal, Slovakia and Slovenia) were identified as having medium vulnerabilities based on the analysis. The analysis also showed that, compared with 2019, RRE vulnerabilities had increased significantly in most countries amid strong house price and mortgage credit growth, adding to the vulnerabilities that had accumulated in previous years. Moreover, the growth in vulnerabilities even accelerated in most of the EEA countries, despite the uncertainty over the impact of the pandemic and the economic outlook.

The current situation has changed since the last assessment, due to the environment of high inflation and lower economic growth. EU gross domestic product (GDP) grew by 3.5% in

2022, while the European Commission Autumn 2023 Forecast projects growth of 0.6% in 2023 (down from 0.8% and 1.0% projected by the Summer and Spring 2023 Forecasts respectively). Meanwhile, the Autumn 2021 Forecast, which was produced roughly at the time of the 2021 assessment, predicted GDP growth that was significantly higher, at 4.3% in 2022 and 2.5% in 2023. Inflation was 9.2% in 2022 and is projected to be 5.6% in 2023 according to the Autumn 2023 Forecast (less than the 6.7% and 6.5% projected by the Summer and Spring 2023 Forecasts). The Autumn 2021 Forecast included inflation of 2.5% in 2022 and 1.6% in 2023. As a result of surging inflation, monetary policy has been tightened across Europe, leading to higher lending rates for housing loans.

These developments and uncertainty about further developments have led to a deceleration in the growth of, and levelling off in, RRE prices in most EEA countries. At the end of 2022, quarterly growth rates of nominal house prices turned negative in many of these countries (Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Luxembourg, the Netherlands, Norway, Slovakia, Spain and Sweden), signalling a possible turnaround in the market (Chart 1, panel a). This trend continued in the first and second quarters of 2023, even though quarterly growth rates stopped decreasing or rebounded in a number of countries. In a few countries (Austria, the Czech Republic, Denmark, Finland, Germany, Luxembourg, the Netherlands, Slovakia and Sweden), nominal house prices also declined year on year from the second quarter of 2023 (Chart 1, panel b). In some countries, house prices continued growing rapidly (Bulgaria, Croatia, Greece, Latvia, Poland and Portugal).

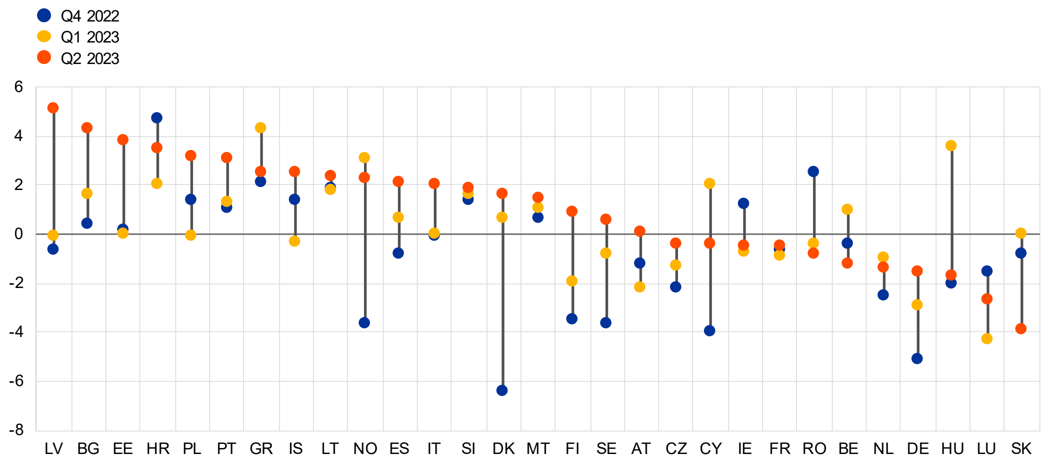
Additional forward-looking indicators suggest declining demand for house purchases, which could be followed by further price decreases going forward. Housing transaction data can be a forward-looking indicator of further developments in house prices. A decrease in transactions may signal that existing owners are not willing to put their property on the market at the same or decreasing prices. Conversely, potential buyers may be adopting a wait-and-see approach in the expectation of falling prices. As a result, a slump in housing transactions may be followed by a cooling of house prices. In almost all countries for which data on housing transactions are available, the number of sales decreased in the second quarter of 2023 in year-on-year terms (Austria, Belgium, Bulgaria, Croatia, Denmark, Finland, France, Hungary, Ireland, Luxembourg, the Netherlands, Norway, Portugal, Slovenia and Spain), significantly in the vast majority of cases.[5] The only exception was Cyprus, where housing transactions continued growing. Similarly, most EU countries have seen a significant decline in volumes of new mortgage loans (Chart 2). In some countries where new mortgage volumes decreased significantly in 2022, the annual growth rate recorded a rebound in 2023 due to the base effect. According to the euro area bank lending survey conducted by the European Central Bank (ECB), household demand for housing loans contracted more strongly than expected in the third quarter of 2023, although not by as much as in the fourth quarter of 2022. The decline in both the number of housing transactions and the volume of new mortgage loans suggests declining demand at current house prices and interest rates.

[5] According to tax administration data for Croatia, and based on data published by Eurostat for other countries.

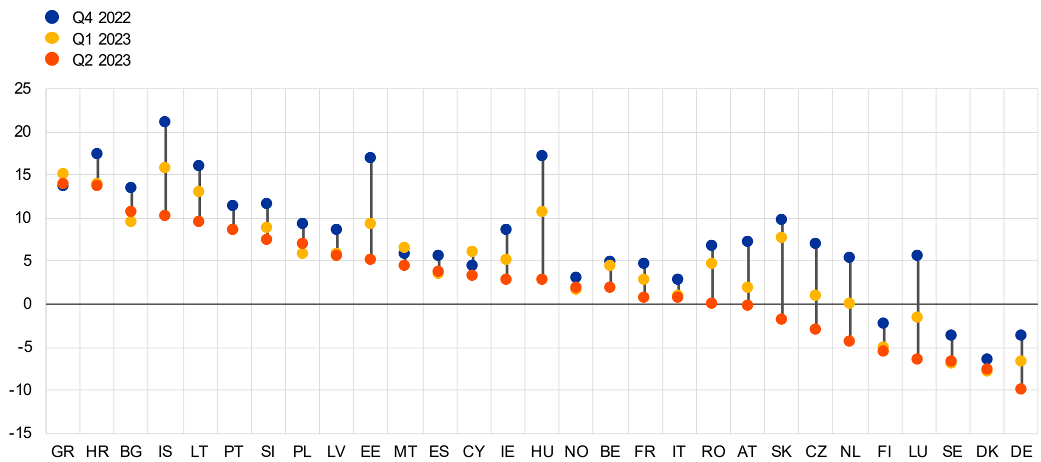
Chart 1

Nominal house price growth

(quarterly percentage changes)



(annual percentage changes)

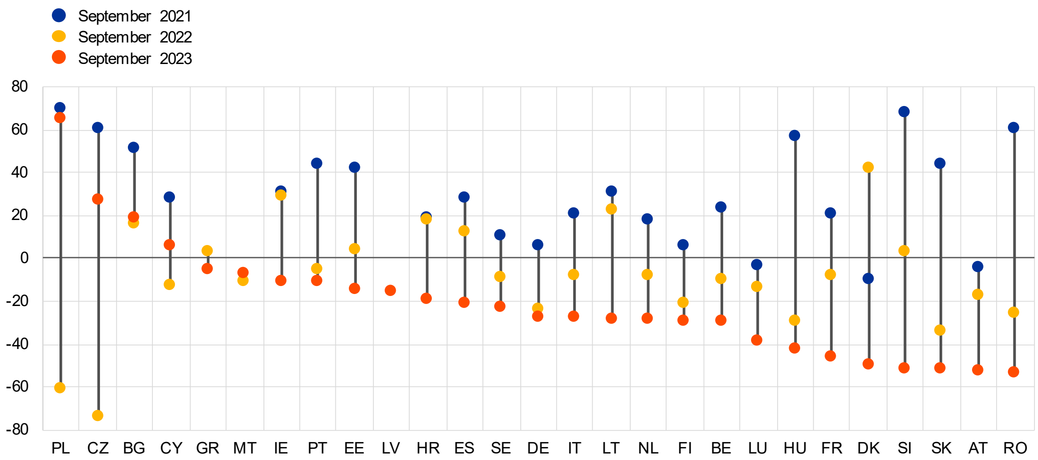


Sources: Eurostat and ECB.

Note: ECB data for Greece (not available from Eurostat), Eurostat data for all other countries, Liechtenstein not included (not available from Eurostat or ECB data).

Chart 2
New loans for house purchase

(annual percentage changes)

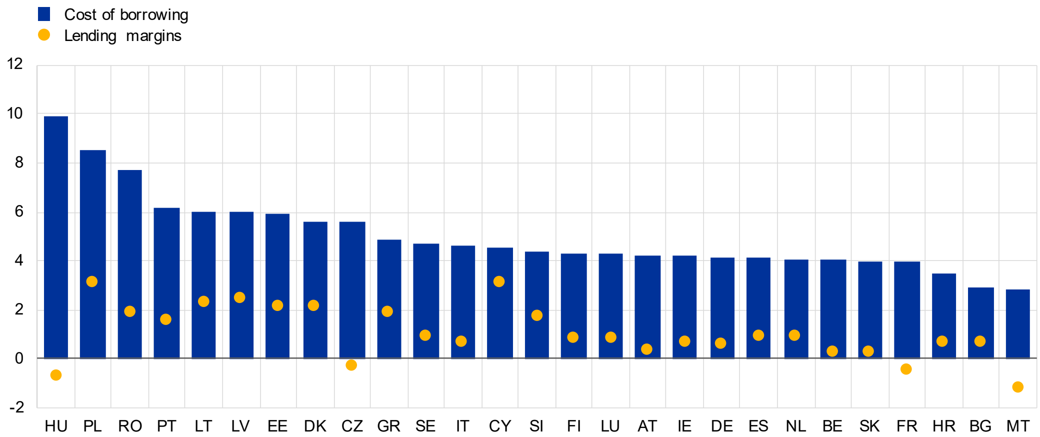


Source: ECB.
Notes: Monthly year-on-year increase in the three-month moving average (subject to data availability) of the volume of new loans to households for house purchase. June-August 2023 for Latvia, April-June 2023 for Romania, August-September 2023 for Slovenia.

Although mortgage borrowing costs have increased across the EU, the pass-through of higher monetary policy rates to lending rates varies between countries. In countries with the highest mortgage borrowing costs throughout 2023 (Hungary, Poland and Romania), monetary tightening started earlier, and the key monetary policy rates remain significantly higher than in the euro area. However, monetary policy rates are not the only factor contributing to rising mortgage borrowing costs, as these costs also differ significantly across EU countries. In particular, in the third quarter of 2023, bank lending margins were relatively high in Cyprus, Denmark, Estonia, Greece, Latvia, Lithuania, Poland, Portugal, Romania and Slovenia, contributing to relatively high mortgage borrowing costs in some EU countries (Chart 3). By contrast, in non-euro area countries margins were negative in Hungary and the Czech Republic, reflecting efforts by banks in these countries to attract borrowers, given the high monetary policy rates. In the euro area countries, margins were negative in France and Malta. In some countries, margins were relatively high, despite more pronounced declines in new mortgage loans (Denmark, Romania and Slovenia). Nevertheless, margins decreased in most EU countries for which yearly growth rates are available.

Chart 3
Borrowing costs of loans for house purchase

(percentages, September 2023)



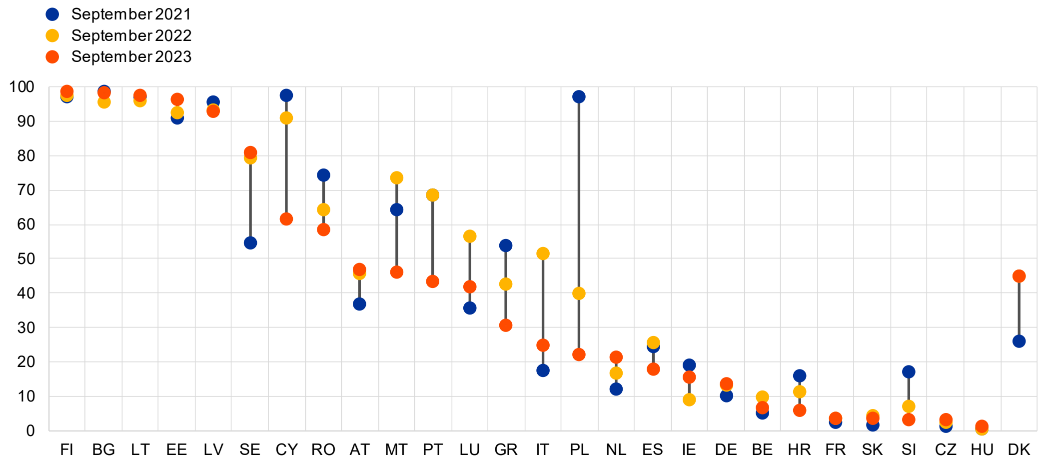
Source: ECB.
Notes: Lending margins of monetary financial institutions on loans to households for house purchase denominated in euro and/or domestic currency. Cost of borrowing related to lending for house purchase excluding revolving loans and overdrafts, convenience and extended credit card debt (total initial rate fixation, new business coverage, denominated in euro).

The use of fixed-rate mortgages rather than variable-rate mortgages changed in some countries in response to monetary policy tightening (Chart 4**).** Several countries recorded a substantial increase in the proportion of new loans with floating rates or short-term fixed rates (of up to one year) in September 2022 compared with September 2021 (Italy, Sweden, and Denmark). More recently, some countries have instead experienced a significant decline of 10-30 percentage points in the proportion of new variable-rate loans (Cyprus, Greece, Italy, Luxembourg, Malta, Poland and Portugal). The reason behind these changes may be household expectations regarding future interest rates, or new products made available to borrowers, possibly through advantageous re-financing loans. On the one hand, borrowers with variable-rate loans may benefit from these floating rates in the event of an early easing of monetary policy. On the other hand, these loans pose a risk if monetary policy tightens or stays at its current level for longer.

Chart 4

Share of new mortgage loans at variable rates

(percentage of total new loans)



Source: ECB.

Notes: Average proportion of variable-rate loans in total new loans for house purchase based on MIR (MFI interest rate) data (loans with floating rate or initial rate fixed for a period of up to one year), three-month moving average (subject to data availability). July 2022 for Denmark, July and September 2023 and May-July 2022 for Hungary, June-August 2023 for Latvia, July-August 2023 for Malta, June-August 2023 for Romania.

In terms of lending standards, new loans have often higher debt-service-to-income (DSTI) but lower loan-to-value (LTV) and debt-to-income (DTI) values, reflecting the pressures that higher mortgage interest rates are putting on borrowers.[6] In recent years, house prices have been rising faster than household incomes, leading to increasing DTI/LTI (loan-to-income) and LTV values, according to the ECB/ESRB survey. Lately, these trends seem to be reverting. These developments suggest that rising mortgage interest rates are discouraging borrowers from taking out larger loans (with LTV and DTI/LTI ratios therefore decreasing). Nevertheless, allowances for exemptions from DSTI limits are not fully utilised in most countries in which they are available. This may suggest that, amid declining disposable income, the financial constraints on households are more restrictive than the DSTI limits, or that financial institutions are increasingly cautious when providing RRE loans. Looking at new lending in the first half of 2023, the highest proportion of loans with LTV ratios of more than 90% were granted in France, Finland[7], Croatia and Latvia (more than 25% of the volume of new loans). In Belgium, Bulgaria, the Czech Republic, Hungary, Luxemburg, Poland, Romania and Slovenia, there was a significant proportion of new loans (around or over 30%) with DSTI/LSTI (loan-service-to-income) ratios of more than 40%. Nevertheless, it should also be noted that the risk of high-DSTI values is being mitigated by subdued lending in some countries. Hence, even though the share of high-DSTI loans is increasing, the volume of such loans is generally decreasing, resulting in lower volumes of risky exposures. Therefore, in the current

[6] Unless otherwise stated, lending standards involving income are calculated using net income.

[7] Note that in Finland, borrowers may also provide collateral other than RRE, as the binding regulation applies to the loan-to-collateral (LTC) ratio rather than to the LTV ratio.

situation of monetary tightening, the high proportion of high-DSTI ratios may indicate a slowdown on the lending market rather than an additional loosening of lending standards.

Overall, an orderly correction in RRE markets may be healthy for financial stability in the long run. In particular, the affordability of housing has to be improved to break the spiral between rising house prices and household indebtedness, which already poses a risk to financial stability in many EEA countries. Given the sharp rises in house prices in previous years, only a limited number of borrowers (particularly those who purchased houses at peak values) would be expected to find themselves with negative equity, even in the event of a significant fall in RRE prices (while other borrowers should still benefit from a significant appreciation of collateral since their loan origination). In addition, in several countries, LTV and DSTI limits have further strengthened the resilience of borrowers and lenders. In any case, even in the event of more significant household defaults, major price corrections would be needed to cause material losses for banks stemming from housing loan portfolios.

However, vulnerabilities are concentrated in countries with significant macroeconomic risks, high household indebtedness and a high proportion of variable interest rate loans. A steep decline in household consumption remains a key channel through which RRE risks may first materialise. The current levelling off of house prices started in countries with the highest levels of vulnerabilities according to the ESRB's analysis (Denmark, the Netherlands and Sweden). At the same time, in many cases it has been most pronounced in countries with a high proportion of variable-rate loans, and countries with interest-only or deferred amortisation mortgage loans, in which the accumulation of vulnerabilities may largely be driven by low interest rates and speculation on house price appreciation. In addition, the impact of rising mortgage borrowing costs on house prices could be relatively stronger in countries with a higher share of variable-rate loans, where higher interest rates are passed on to the borrower, not only through new loans, but also through existing loans. This potential effect depends, among other factors, on the importance of credit for RRE market transactions, which varies by country.

The results show that the level of accumulated ("stock") risks remains significant in most EEA countries, although the growth of cyclical risks has decelerated or stopped in most cases. In several countries, RRE prices have slowed or begun a moderate levelling off. In many other countries, prices have continued to rise, but the granting of RRE loans has slowed. In line with historical observations, this may signal that some levelling off in prices might also follow in these countries. In a few countries, RRE prices or loans have continued to rise significantly. In addition, in some countries that had previously seen a slowdown or a levelling off, quarterly trends in house prices stopped decreasing or rebounded in mid-2023.

Given the latest developments in RRE markets, the previous assessment of risk dynamics ("flow risks") has been replaced by an indication of the position in the RRE cycle (Table 1). Depending on changes in house prices, housing transactions and new mortgage loans, RRE markets in the individual countries are classified in one of three possible categories: "continued expansion", "slowdown/turning point" or "downturn", reflecting the ESRB methodology. Countries for which the last yearly change in house prices was negative are classified as in "downturn". Conversely, countries in which house prices have continued to grow significantly (by more than 5% annually) are classified as in "continued expansion". This group also includes countries in which house prices have continued to grow rapidly despite a decrease in the volume of new mortgage loans. All other countries are classified in the “slowdown/turning point” category. Countries in this group have recently experienced stagnating or moderately growing house prices, combined with a decrease in the volume of new mortgage loans. It is important to note that the indication of the position in the RRE cycle used in this report may be sensitive to newly available data.

Compared with 2021, the ESRB risk assessment has remained unchanged for all EEA countries (Table 4 in the Annex). So far, the levelling off in RRE markets has been too short-lived to bring down the level of accumulated risks significantly. For this reason, the stock risks are assessed as the same as in the previous assessment for all EEA countries. The overall risk assessment focuses primarily on stock risks, as in the assessment in 2021. This means that, generally, countries with a high level of stock risks are assessed as high-risk countries (Denmark, Luxembourg, the Netherlands, Norway and Sweden), while those with a medium level of stock risks are assessed as medium-risk countries (Austria, Belgium, the Czech Republic, Germany, Estonia, Finland, France, Ireland, Iceland, Liechtenstein, Malta, Poland, Portugal and Slovakia). In addition, a few countries with low stock risks but continued expansion are also considered medium-risk countries in the overall risk assessment (Bulgaria, Croatia, Lithuania and Slovenia).[8] While Greece is also regarded as being in an expansionary phase in the RRE markets, the expansion started recently, after a long period of correction. Therefore, Greece is still considered low-risk in the overall risk assessment. Meanwhile, Hungary, in which the RRE market has started levelling off most recently, is still considered a medium-risk country. As a result, the overall risk assessment has remained the same as in the last assessment of all countries.

Table 1

Summary of the analysis of vulnerabilities

Country	Stock risks	Position in the RRE cycle	Overall risk assessment
Austria	Medium	Downturn	Medium
Belgium	Medium	Slowdown/turning point	Medium
Bulgaria	Low	Continued expansion	Medium
Croatia	Low	Continued expansion	Medium
Cyprus	Low	Slowdown/turning point	Low
The Czech Republic	Medium	Downturn	Medium
Denmark	High	Downturn	High
Estonia	Medium	Slowdown/turning point	Medium

8 As explained above, a similar approach was adopted in 2021, when high risk dynamics typically led to a medium overall risk assessment.

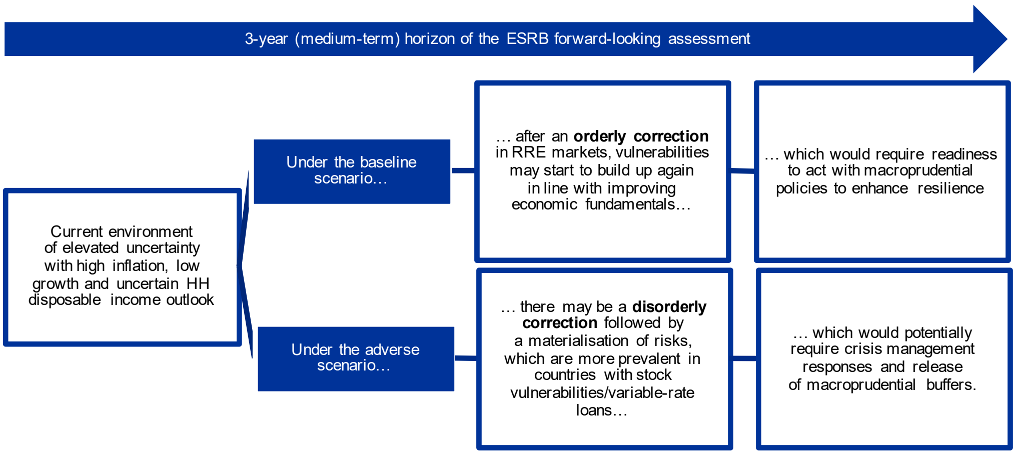
Finland	Medium	Downturn	Medium
France	Medium	Slowdown/turning point	Medium
Germany	Medium	Downturn	Medium
Greece	Low	Continued expansion	Low
Hungary	Low	Slowdown/turning point	Medium
Ireland	Medium	Slowdown/turning point	Medium
Iceland	Medium	Continued expansion	Medium
Italy	Low	Slowdown/turning point	Low
Latvia	Low	Continued expansion	Low
Liechtenstein	Medium	Slowdown/turning point	Medium
Lithuania	Low	Continued expansion	Medium
Luxembourg	High	Downturn	High
Malta	Medium	Slowdown/turning point	Medium
The Netherlands	High	Downturn	High
Norway	High	Slowdown/turning point	High
Poland	Medium	Continued expansion	Medium
Portugal	Medium	Continued expansion	Medium
Romania	Low	Slowdown/turning point	Low
Slovakia	Medium	Downturn	Medium
Slovenia	Low	Continued expansion	Medium
Spain	Low	Slowdown/turning point	Low
Sweden	High	Downturn	High

Source: ESRB.

So far, the levelling off in some of the RRE markets has been regarded as largely orderly, with most countries recording only minor downwards price adjustments. This may be caused by various factors, including fiscal measures to contain rising energy prices, sustained employment, BBMs introduced in a number of countries in previous years and housing supply shortages.

Given the high level of uncertainty, the forward-looking risk assessment remains scenario dependent (Figure 1). Under a baseline scenario, such as the European Commission Autumn 2023 Forecast, an orderly correction of RRE prices and credit developments may continue in the near term. However, according to the same forecast, economic growth is expected to pick up and inflation to moderate in most EU countries in 2024. This could lead to a further build-up of RRE vulnerabilities on the medium-term horizon, which would require readiness to act with macroprudential policies. The duration of the levelling off in the RRE market (i.e. the time until the next upswing) is subject to uncertainty. Under the adverse scenario, involving for example stagnating economic growth with increased interest rates on mortgage loans and rising unemployment, coupled with persistently high inflation, households may find it even harder to pay back their housing loans. This might lead to a sizeable rise in credit risk, a further tightening of financing conditions or even a credit crunch, and possibly a disorderly correction of RRE prices, partly fuelled by an increasing number of property foreclosures. Eventually, this might require crisis management responses and the release of macroprudential buffers.

Figure 1
Economic scenarios and their impact on further developments in RRE vulnerabilities



Source: ESRB.

3 Policy analysis

This section describes the macroprudential policy changes in the individual countries since the 2021 assessment. It also puts them into the context of previous policy actions, characterised by a loosening of macroprudential policy after the outbreak of the pandemic and a subsequent re-tightening in many countries.

At the time of the last ESRB assessment in 2021, the macroprudential policy mix of countries was affected by the uncertainty related to the pandemic and the economic outlook (Table 5 in the Annex). Before the outbreak of the pandemic, several countries, including those that had received ESRB recommendations in 2019, introduced new BBMs or tightened existing ones (Belgium, France, Portugal and Slovakia). After the outbreak of the pandemic, some countries paused their implementation of new measures (the Netherlands, regarding the Article 458 Capital Requirements Regulation (CRR[9]) measure). In the initial phase of the pandemic, a number of countries also relaxed or discontinued their BBMs (temporarily: Malta, Portugal, Norway, Slovenia and Sweden; for an indefinite period: the Czech Republic and Finland) and capital-based measures (CBMs) (CCyB: Belgium, Bulgaria, the Czech Republic, Denmark, France, Germany, Iceland, Ireland, Lithuania, Norway, Slovakia and Sweden; SyRB: Estonia, Finland, Hungary and Poland). In contrast, Luxembourg introduced LTV limits and kept the CCyB unchanged. At a later stage of the crisis, countries started reintroducing BBMs (the Czech Republic and Finland) and rebuilding their capital buffers (CCyB: Bulgaria, the Czech Republic, Denmark, Estonia, Iceland, Ireland, Norway, Romania, Slovakia and Sweden; sectoral SyRB: Lithuania). Some countries adopted new BBMs (Iceland and Lithuania).

Since then, a number of countries have continued to (re)build capital buffers by increasing either the CCyB rates or introducing a sectoral SyRB (Table 2). The CCyB was raised to 2.5% in the Czech Republic[10], Denmark, Iceland and Norway, 2% in Bulgaria, the Netherlands and Sweden, 1.5% in Croatia, Estonia, Ireland and Slovakia, 1% in Belgium, Cyprus, France and Lithuania, 0.75% in Germany and 0.5% in Hungary[11]. A few countries also introduced a sectoral SyRB for RRE exposures for the first time since the measure has been available (Belgium at 9%, Portugal at 4%, Germany at 2%, Malta at 1.5% with a gradual phase-in, and Liechtenstein and Slovenia at 1%).[12] In the case of Belgium, the sectoral SyRB replaced the previous risk-weight measure pursuant to Article 458 CRR and was calibrated to have an equivalent impact. Finland reintroduced a SyRB of 1% for all exposures.

A few countries acted using BBMs by switching from recommendations to legally binding measures, or by introducing new legally binding measures or recommendations (Table 2). Austria switched from an existing set of recommendations to legally binding measures. Finland

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9 **Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirement for credit institutions and investment firms (OJ L 176, 27.6.2013, p. 1)**.

10 The CCyB in the Czech Republic was increased to 2.5% in March 2022 and then reduced to 2.25% in June and 2% in September 2023.

11 In Hungary, the implementation date of the higher CCyB rate was subsequently postponed by one year to 1 July 2024. Hungary also announced an intention to reactivate the SyRB, but in relation to commercial real estate vulnerabilities.

12 At the end of June 2024, Denmark will introduce a sectoral SyRB. The subsets of exposures to which the SyRB will apply are all types of exposures to non-financial corporations operating in real estate activities and in construction. According to the ESRB definition, this is more of a measure to address commercial real estate loans.

supplemented the legally binding LTV limit with a maturity limit (also legally binding)[13] and a recommendation for maximum DSTI values. In Liechtenstein, the Financial Market Authority tightened the amortisation requirements for loans with higher LTV values and introduced additional amortisation requirements for loans with higher LSTI values. These actions took the form of a communication, as the appropriate legal framework is not available in Liechtenstein.[14] A few countries tightened existing BBMs to address emerging sources of vulnerabilities. Poland recommended a higher stress in the existing guidelines to banks for the purpose of the borrowers' creditworthiness assessment. Similarly, Iceland adjusted the interest rates and maximum maturity for calculating the DSTI values, which are subject to a DSTI limit, depending on whether the loans are CPI-indexed or not. Iceland also tightened the LTV limit for non-first-time home buyers and later also for first-time buyers. Slovenia tightened the LTV limit for loans to finance the non-primary residence of the borrower, while Romania did so for loans to finance property that is not for the borrower's own use. Slovakia tightened the DTI limit for loans whose maturity exceeds the retirement age of the borrowers. In addition, countries continued their efforts to complete their macroprudential toolkits and to increase the effectiveness of their macroprudential measures. In particular, Greece created a legal framework which made legally binding BBMs available to the Bank of Greece. In Finland, an expert group appointed by the Minister of Finance to investigate the situation of households and the effects of rising interest rates has recently formulated suggestions about legally binding income-related measures. Following a review of its macroprudential strategy, the Central Bank of Ireland has made targeted changes to the calibration of its BBMs, including an increase in the LTI limit for first-time buyers. Similarly, Norway has recalibrated the existing DSTI limit, lowering the stress on interest rates used to calculate the DSTI values for loans, while also introducing a floor for the stressed interest rates. In addition, a tighter LTV limit for loans to finance second homes in Oslo expired and was not extended. In Portugal, interest rate stress testing was lowered for new loans with a longer interest rate fixation period.

Currently, active macroprudential policies appear to adequately address RRE risks and vulnerabilities in many EEA countries. Eleven EEA countries do not have a positive CCyB in place, including four that also do not have a (sectoral) SyRB (Spain, Greece, Italy and Latvia). About half of the EEA countries use risk-weight measures to increase the resilience of the banking sector. In addition, more than half of the EEA countries have BBMs in place, even though their application differs across countries. While LTV limits are present in all countries with BBMs, income-related measures (DSTI, DTI or LTI limits) or maturity limits are used in slightly fewer countries. Nine countries put stress on interest rates for the calculation of DSTI values that are subject to a limit.

[13] In addition, an LTV limit, maturity limit and certain amortisation requirements apply to housing company loans from July 2023.

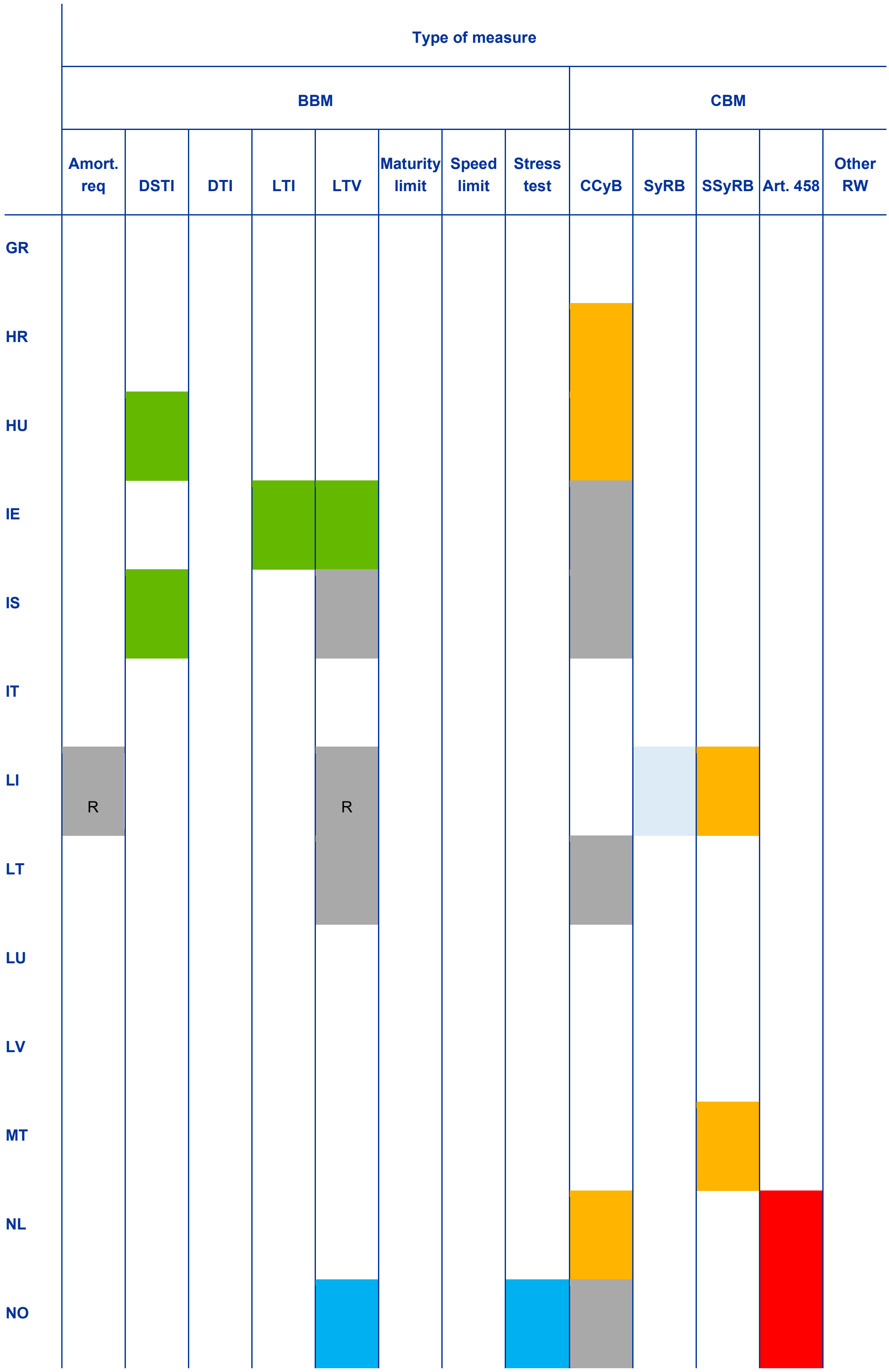
[14] The communication followed the recommendation by the Financial Stability Council of Liechtenstein: Ausschuss für Finanzmarktstabilität (2023), **Medienmitteilung Nr. 17a**, 5 July 2023.

Table 2

Summary of RRE macroprudential policy actions since January 2022

Legend: Yellow – Introduction, Green – Recalibration, Red - Extension, Blue – Relaxation, Grey – Tightening, Light Grey – Abolished.

	Type of measure												
	BBM								CBM				
	Amort. req	DSTI	DTI	LTI	LTV	Maturity limit	Speed limit	Stress test	CCyB	SyRB	SSyRB	Art. 458	Other RW
AT		LB			LB	LB							
BE													
BG													
CY													
CZ													
DE													
DK													
EE													
ES													
FI		R				LB							
FR													


Type of measure
BBM
CBM
Amort. req
DSTI
DTI
LTI
LTV
Maturity limit
Speed limit
Stress test
CCyB
SyRB
SSyRB
Art. 458
Other RW
GR
HR
HU
IE
IS
IT
LI
LT
LU
LV
MT
NL
NO
R
R

	Type of measure												
	BBM								CBM				
	Amort. req	DSTI	DTI	LTI	LTV	Maturity limit	Speed limit	Stress test	CCyB	SyRB	SSyRB	Art. 458	Other RW
PL		R						R					
PT													
RO													
SE													
SI													
SK													

Source: ESRB.
Notes: A macroprudential policy action is recorded in the table at the time of the announcement by the national authorities. "LB" stands for legally binding, "R" for recommendation. This information is included only for countries with recommendations, or in the event of changes from recommendations to legally binding measures.

4 Assessment and policy suggestions

This section describes the results of the medium-term macroprudential policy assessment, and some policy suggestions for the individual countries. As the risk assessment remains largely unchanged (also depending on the scenario going forward), most of the policy suggestions from the assessment in 2021 remain valid.

In the last assessment in 2021, the ESRB took into account the uncertainty over the economic outlook but emphasised the need to address significant and still increasing RRE vulnerabilities through additional policy measures (Table 6 in the Annex). Overall, in five countries which received ESRB recommendations or warnings in 2019, the policy was assessed as appropriate and sufficient to mitigate the vulnerabilities identified in 2021 (Belgium, the Czech Republic, France, Iceland and Norway). In two of the countries, the policies were assessed as appropriate and partially sufficient (the Netherlands and Sweden), while in four countries, they were assessed as partially appropriate and partially sufficient (Denmark, Finland, Germany and Luxembourg). For the other EEA countries subject to the in-depth assessment in 2021, the policies in seven countries were identified as appropriate and sufficient (Estonia, Ireland, Lithuania, Malta, Poland, Portugal and Slovenia), while in five countries they were considered to be only partially appropriate and partially sufficient (Austria, Bulgaria, Croatia, Hungary and Liechtenstein) and in one country as appropriate and partially sufficient (Slovakia).[15]

In particular, the ESRB emphasised the need for further policy action in countries which received recommendations in 2019, and formulated policy recommendations and suggestions in two new recommendations and five new warnings (Table 6 in the Annex).[16] In addition, the ESRB also put forward a medium-term policy guidance for other countries, which was scenario dependent, and responded to the uncertainty surrounding the economic recovery from the COVID-19 pandemic. The ESRB pointed out that countries with accumulated vulnerabilities should ensure that they preserve capital until risks materialise or should consider (re-)introducing CBMs whenever the economic recovery is on solid ground. This concerned both countries with high stock vulnerabilities (Denmark, Luxembourg, the Netherlands, Norway and Sweden), and countries in which stock vulnerabilities were lower but had been increasing for quite some time (Austria, Belgium, France, Germany, Hungary, Iceland, Ireland, Malta, Poland, Portugal, Slovenia and Slovakia). Some countries with relatively low internal ratings based (IRB) risk weights for RRE loans were advised to consider addressing the issue, either by using a sectoral SyRB or by increasing the risk weights (Denmark and the Netherlands and also, if vulnerabilities increased further, France, Portugal and Slovakia). Countries in which vulnerabilities that had already accumulated had increased further were invited to consider (re-)introducing or further tightening BBMs, as appropriate (Austria, Denmark, Germany, the Netherlands, Slovakia and Sweden).

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[15] *Policy appropriateness* is evaluated in accordance with the nature and level of the identified vulnerabilities and the position of the country in the residential real estate cycle. *Policy sufficiency* is assessed based on the ability of macroprudential measures to mitigate the identified vulnerabilities while taking the benefits and costs of these measures into account. Nevertheless, assessing policy sufficiency is particularly challenging, given the varied approach national authorities take to calibrating and evaluating measures. If the policy is assessed as not fully appropriate, it is automatically assessed as not fully sufficient, since vulnerabilities are expected to continue building up.

[16] Recommendations were sent to Austria and Germany, and warnings to Bulgaria, Croatia, Hungary, Liechtenstein and Slovakia. See also the ESRB press release "**ESRB issues new warnings and recommendations on medium-term residential real estate vulnerabilities**", 11 February 2022.

Depending on the dynamics of vulnerabilities going forward, the ESRB also pointed out that existing BBMs might need to be recalibrated or supplemented in other countries (Belgium and Estonia). In addition, countries in which flow vulnerabilities had recently been emerging were advised to introduce BBMs in order to counter the accumulation of risks (Bulgaria and Croatia). In this context, the ESRB noted that over the last few years, frameworks for BBMs had been completed in some of the countries in which they had been lacking. Last but not least, the ESRB emphasised that countries should carefully consider policy measures that go beyond the macroprudential remit, as structural and other factors that lead to imbalances in RRE markets should be addressed by policies directly affecting these imbalances. The ESRB also mentioned that in specific cases, CBMs, and especially SyRB or higher IRB risk weights, might be considered, rather than the tightening of BBMs. This particularly concerned Portugal, which had a high proportion of housing transactions carried out without domestic credit. In such a situation, further tightening of BBMs may bring additional unwarranted costs for borrowers having to deal with overvalued house prices, including as a result of foreign demand, characterised by higher purchasing power.

The current assessment was completed with only a few changes compared with 2021 (Table 3). With regard to the policy changes implemented since January 2022, the macroprudential policy mix in five countries that previously received an ESRB recommendation (Austria and Finland) or a warning (Hungary, Liechtenstein and Slovakia) is currently regarded as fully appropriate and sufficient according to the results while they were regarded as partially appropriate and partially sufficient in the previous assessment. For the other EEA countries included in the policy analysis in 2021, the policy assessment remains unchanged. This means that the policy is regarded as not fully sufficient in Bulgaria, Croatia, Denmark, Germany, Luxembourg, the Netherlands and Sweden. In all countries that have been added to the policy analysis for the first time this year, the policy is assessed as fully appropriate and sufficient (Cyprus, Greece, Italy, Latvia and Romania). Despite this, the national authorities in these countries might consider introducing preventative measures (such as BBMs in Greece and Italy) and/or make use of other measures if the RRE vulnerabilities build up.

In addition, the assessment reiterates the policy recommendations and suggestions made in the past analyses (Table 3). The assessment concludes that, in case of a renewed increase in RRE vulnerabilities, countries that previously received ESRB recommendations should continue to address the RRE vulnerabilities with macroprudential policy as well as other measures. While doing so, countries should take into account the position in the economic and financial cycles and minimise the procyclical impact of the policy action. Other countries should be ready to continue building up capital buffers and/or tightening their BBMs should RRE vulnerabilities start increasing again. All countries should continue to monitor their RRE vulnerabilities very closely and take the opportunity of the current slowdown in RRE markets to make structural reforms beyond the macroprudential remit. These reforms should aim to reduce upwards pressures on house prices and removing incentives for households to take on debt. If necessary, countries should enhance their macroprudential toolkit in order to strengthen their ability to address RRE-related vulnerabilities. Concrete policy suggestions for individual countries are listed below (Table 3).

Table 3

Summary of the policy assessment and suggestions

	ESRB risk assessment in 2023	Policy actions since ESRB assessment in 2021	ESRB policy assessment in 2023			Past ESRB policy action	
			Policy assessment				
			Appropriateness	Sufficiency	Policy suggestions	Warning	Recom.
AT	Medium	Switch to legally binding BBMs	Appropriate	Sufficient	Continue monitoring the vulnerabilities, ensure compliance with BBMs, continue implementing the previous ESRB recommendations taking into account the position in the economic and financial cycles. In particular, supplement BBMs with capital-based measures if BBMs are not effective, adjust calibration of BBMs if necessary.	2016	2021
BE	Medium	Sectoral SyRB (6%) replacing previous risk weight floor (Article 458 CRR), CCyB (1%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, ensure compliance with BBMs. Assess the sufficiency of the planned lowering of the sectoral SyRB to 6%.	2016	2019
BG	Medium	CCyB (2%)	Partially appropriate	Partially sufficient	Continue monitoring the vulnerabilities, consider introducing BBMs (LTV limits and at least one income-related instrument) as preventative measures to keep lending standards sound.	2021	
HR	Medium	CCyB (1.5%)	Partially appropriate	Partially sufficient	Continue monitoring the vulnerabilities, consider introducing further BBMs to keep lending standards sound, address sources of vulnerabilities beyond the macroprudential remit, particularly related to potential unintended consequences of government subsidy programme.	2021	

	ESRB risk assessment in 2023	Policy actions since ESRB assessment in 2021	ESRB policy assessment in 2023			Past ESRB policy action	
			Policy assessment				
			Appropriateness	Sufficiency	Policy suggestions	Warning	Recom.
CY	Low	CCyB (1%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, ensure compliance with BBMs, consider increasing capital buffers if vulnerabilities build up.		
CZ	Medium	CCyB (2.5% applicable from April 2023, 2% from October 2023)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, assess impact of the discontinuation of the DSTI limit, introduce (sectoral) SyRB and/or tighten BBMs if vulnerabilities build up.	2019	
DK	High	CCyB (2.5%), SyRB (7%) with respect to non-financial corporations operating in real estate and in construction (therefore commercial real estate loans)	Partially appropriate	Partially sufficient	Continue monitoring the vulnerabilities, continue implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, introduce BBMs to address risks related to non-amortising loans and loans with high LTV and DTI values, design existing BBMs with financial stability objectives in mind, further increase capital buffers if vulnerabilities build up, consider risk-weight floor for IRB banks, continue with policy actions beyond macroprudential remit.	2016	2019
EE	Medium	CCyB (1.5%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider tightening BBMs and/or further increase capital buffers if vulnerabilities build up.		

	ESRB risk assessment in 2023	Policy actions since ESRB assessment in 2021	ESRB policy assessment in 2023			Past ESRB policy action	
			Policy assessment				
			Appropriateness	Sufficiency	Policy suggestions	Warning	Recom.
FI	Medium	Legally binding maturity limit, legislation concerning housing company loans, suggestions by an expert group on legal framework for BBMs, recommendation on stressed DSTI limits, SyRB (1%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, continue implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, continue efforts to establish the legal framework/introduce legally binding income-based measures, further increase capital buffers if vulnerabilities build up.	2016	2019
FR	Medium	CCyB (1%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, increase capital buffers if vulnerabilities start to build up.	2019	
DE	Medium	CCyB (0.75%), sectoral SyRB (2%)	Partially appropriate	Partially sufficient	Continue monitoring the vulnerabilities, including with the use of newly available data, continue implementing the previous ESRB recommendations taking into account the position in the economic and financial cycles. This includes a further increase in capital buffers to address potential accumulated vulnerabilities as well as the introduction of borrower-based measures (LTV limits and at least one income-related instrument) to keep lending standards sound going forward.	2019	2021
GR	Low	Establishing legal framework for BBMs	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider introducing BBMs as a preventative measure to keep lending standards sound.		
HU	Medium	CCyB (0.5%), announcement of an intention to reactivate SyRB for commercial real estate loans	Appropriate	Sufficient	Continue monitoring the vulnerabilities, further increase capital buffers and/or tighten borrower-based measures if vulnerabilities build up.	2021	

	ESRB risk assessment in 2023	Policy actions since ESRB assessment in 2021	ESRB policy assessment in 2023			Past ESRB policy action	
			Policy assessment		Policy suggestions		
			Appropriateness	Sufficiency		Warning	Recom.
IS	Medium	Tightening of LTV, recalibration of the DSTI limit for CPI indexed and non-indexed mortgages, CCyB (2.5%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, particularly monitor risks related to variable-rate and CPI-indexed loans, adjust BBMs if needed to reflect the vulnerabilities related to the changing loan characteristics.	2019	
IE	Medium	Recalibration of BBMs, CCyB (1.5%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, assess impact of BBM recalibration, consider adjusting BBMs, if necessary, and further increasing capital buffers if vulnerabilities build up.		
IT	Low		Appropriate	Sufficient	Continue monitoring the vulnerabilities, including the role of investment funds in driving house prices in some large cities. Consider introducing BBMs as a preventative measure to keep lending standards sound.		
LV	Low		Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider tightening lending standards or BBMs (in relation to state support loans), and/or further increasing capital buffers if vulnerabilities build up. Address sources of vulnerabilities beyond the macroprudential remit, particularly related to investments in upgrading the housing stock.		
LI	Medium	Change of the SRB into a sectoral SyRB with different calibration (1%), recommendation to introduce additional BBMs	Appropriate	Sufficient	Implement the recommendations of the FSC related to BBMs. Continue monitoring the vulnerabilities, assess the impact of recalibration of SRB, further increase capital buffers if vulnerabilities build up.	2021	

	ESRB risk assessment in 2023	Policy actions since ESRB assessment in 2021	ESRB policy assessment in 2023			Past ESRB policy action	
			Policy assessment				
			Appropriateness	Sufficiency	Policy suggestions	Warning	Recom.
LT	Medium	Sectoral SyRB (2%), CCyB (1%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider increasing capital buffers if vulnerabilities build up.		
LU	High		Partially appropriate	Partially sufficient	Continue monitoring the vulnerabilities, continue implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, introduce income-related BBMs and continue with policy actions beyond the macroprudential remit related to policies addressing structural housing market issues. Increase capital buffers if vulnerabilities build up.	2016	2019
MT	Medium	Sectoral SyRB (1.5% gradual)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider further increasing capital buffers if vulnerabilities build up.		
NL	High	CCyB (2%)	Appropriate	Partially sufficient	Continue monitoring the vulnerabilities, continue implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, tighten LTV limits, adjust methodology for setting DSTI limit with financial stability objectives in mind, continue with policy actions beyond the macroprudential remit related to policies addressing structural housing market issues. Further increase capital buffers if vulnerabilities build up.	2016	2019
NO	High	Loosening of DSTI limit (lower i.r. stress), CCyB (2.5%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, take appropriate policy action if needed.	2019	

	ESRB risk assessment in 2023	Policy actions since ESRB assessment in 2021	ESRB policy assessment in 2023			Past ESRB policy action	
			Policy assessment		Policy suggestions		
			Appropriateness	Sufficiency		Warning	Recom.
PL	Medium	Higher interest rate stress recommended to banks for the purpose of borrowers' creditworthiness assessment	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider introducing explicit DSTI limit and increasing capital buffers if vulnerabilities build up. In particular, ensure that capital needed is retained to cover potential losses due to the legacy portfolio of FX mortgages by, for example, introducing a sectoral SyRB or with Pillar II measures (the latter being in place).		
PT	Medium	Tightening of maximum maturity of housing loans, lowering i.r. stress test for new loans with longer interest rate fixation period, sectoral SyRB (4%).	Appropriate	Sufficient	Continue monitoring the vulnerabilities. Besides the recent introduction of a sectoral SyRB, consider further increasing capital buffers if vulnerabilities pick up.		
RO	Low	Tightening of LTV limit for non-own use property, SyRB (2%), CCyB (1%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider adjusting the BBMs to address loans with high LTI/DSTI ratios or to increase capital buffers if growth in mortgage/broad-based lending picks up again.		
SK	Medium	Tightening of DTI limit if the maturity exceeds the retirement age, CCyB (1.5%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, further increase capital buffers if vulnerabilities build up. Adjust BBMs (DTI or DSTI) to address some potential pockets of vulnerabilities related to high DTI and DSTI values.	2021	
SI	Medium	Tightening of LTV limit for non-primary property, relaxing conditions for exemption from DSTI limit, sectoral SyRB (1%), CCyB (0.5%)	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider further increasing capital buffers and/or tighten BBMs if vulnerabilities build up.		

	ESRB risk assessment in 2023	Policy actions since ESRB assessment in 2021	ESRB policy assessment in 2023			Past ESRB policy action	
			Policy assessment				
			Appropriateness	Sufficiency	Policy suggestions	Warning	Recom.
ES	Low	Mortgage holidays for vulnerable borrowers introduced by the government	Appropriate	Sufficient	Continue monitoring the vulnerabilities, consider introducing capital buffers (e.g. sectoral SyRB) to ensure banking sector resilience to accumulated vulnerabilities in the housing market as well as introducing BBMs to ensure sound lending standards.		
SE	High	CCyB (2%)	Appropriate	Partially sufficient	Continue monitoring the vulnerabilities, continue implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, introduce BBMs that would limit borrowing of overindebted households (e.g. DTI limit), improve the timely availability of data on lending standards, continue with policy actions beyond the macroprudential remit. Further increase capital buffers if vulnerabilities build up.	2016	2019

Source: ESRB.
Note: Policy measures listed as of 14 November 2023.

5 Country analysis

5.1 Austria

Vulnerabilities

The key vulnerabilities identified in 2021 related to house price overvaluation, high house price growth, high mortgage lending growth and signs of a loosening of lending standards. Real house price growth accelerated in the second half of 2020 amid higher construction prices, due to higher prices of raw materials, such as wood. Lending to households for house purchase had been increasing steadily since 2019, with lending standards remaining relatively stable. Household indebtedness increased slightly but remained low. Although the IRB risk weights for mortgage exposures were among the lowest among the EEA countries, they had increased to 14% in the second quarter of 2021.

The Austrian housing market is in a downturn. While RRE prices increased by around 10% year on year from mid-2020 to the third quarter of 2022, the year-on-year growth rate then declined sharply, turning negative in the second quarter of 2023. House price overvaluation is estimated to have decreased. The growth of loans for house purchase has moderated significantly, as new loans for house purchase have been declining year on year since mid-2022, reflecting the rapid rise in interest rates for mortgage lending, as well as reduced affordability due to high RRE prices and the rising cost of living.

Lending standards for housing loans were assessed as unsustainable before the entry into force of the new Financial Market Authority (FMA) regulation. Despite the existing recommendations of the Financial Market Stability Board, a significant proportion of new loans were unsecured, or had an LTV higher than 90% in the third quarter of 2022. Since August 2022, the quantitative criteria of sustainable lending have been legally binding. The data for the first half of 2023 show a marked decrease in the proportion of loans with risky lending standards after the application of these legally binding BBMs, in particular with respect to LTV ratios.

Borrowers with variable-rate loans have seen the costs of servicing their debt increase. Variable-rate loans represent a relatively high proportion of loans in the stock of housing loans in Austria (around 48% in September). Recently, borrowers with variable-rate loans have seen a significant increase in their debt servicing costs. In addition, the renewed spike in new lending at variable interest rates has been adding to the existing vulnerabilities. Nevertheless, no significant increase in NPLs or stage 2 or 3 housing loans has been observed so far.

Policy mix

BBMs	LTV limit (90%), DSTI limit (40%), loan maturity (35 years) with 20% exemption bucket. In August 2022, the previous recommendations became legally binding. In April 2023, the regulation was adopted among other things to allow for bridge funding to be exempted under certain conditions.
CBMs	SyRB for 13 banks at 0.25-1%.

Policy assessment

The current policy mix is considered to be appropriate and sufficient. The authorities should continue monitoring vulnerabilities, ensure compliance with the BBMs according to the mortgage lending regulation and continue implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. In case the legally binding BBMs are assessed as not sufficiently effective to address medium-term vulnerabilities, BBMs should be complemented with CBMs. The authorities should also assess the calibration of BBMs and adjust it if necessary.

5.2 Belgium

Vulnerabilities

The key vulnerabilities identified in 2021 related to signs of house price overvaluation, elevated house price growth, elevated and rising household indebtedness, moderate housing credit growth, and loose, though improving, credit standards for both outstanding and new flows of loans. RRE prices were overvalued by about 14% in 2020, and household indebtedness continued to increase, reaching 106.8% of income. House price overvaluation and mortgage loan growth partly reflected the abolition of tax deductibility of mortgage loans ("housing bonuses") in the Flanders region in January 2020, which led to some frontloading of housing transactions at the end of 2019.

The housing market in Belgium is showing signs of a slowdown. Annual house price growth peaked in the third quarter of 2021, before slowing and turning negative in quarter-on-quarter terms in the fourth quarter of 2022. Housing transactions declined sharply in the first quarter of 2023, after moderating since the second quarter of 2022. The overvaluation of house prices corrected significantly, according to the estimates. While the annual growth in the housing loan stock continued to moderate, new housing loans were strongly affected by higher interest rates: new loans have been declining since the second quarter of 2022, with strongly negative annual growth rates in 2023. According to the euro area bank lending survey, higher interest rates and falling consumer confidence were the main factors contributing to a drop in demand for housing loans.

Lending standards remained similar in 2022 compared with 2021. The proportion of new housing loans with LTV ratios above 90% remained similar in 2022 compared with 2021, down from the levels seen before the Nationale Bank van België/Banque Nationale de Belgique (NBB) introduced requirements on lending standards. However, some households seem to combine multiple risky lending parameters. Mortgages for less energy-efficient houses also tend to be more frequent for households with weak lending standards, making the borrowers vulnerable to further surges in energy prices. However, maturities are relatively short in Belgium despite the recent increases (that allowed mortgage affordability to be maintained, in particular for first-time buyers), which mitigates the risks related to a relatively high proportion of loans with elevated DSTI. According to the NBB, banks reported a slight increase in the proportion of rejected applications for housing loans in the third quarter of 2022, reflecting a tightening of credit standards and pressure on the debt servicing capacity of households due to the higher cost of living and rising interest rates.

Several factors are mitigating the effects of higher inflation and interest rates on the ability of households to service their debt. Wage indexation has dampened the effect of higher inflation on incomes, and the high proportion of loans with fixed interest rates has reduced the impact of higher interest rates over the maturity of their loans. However, although there has been only a marginal increase in NPLs, banks have increased their proportion of stage 2 housing loans to levels that are higher than during the pandemic (to 11%, according to the NBB).

Policy mix

BBMs	Expectations of internal management of mortgage credit standards with LTV limits for various sub-segments of loans, and limits on loans combining a high LTV ratio (above 90%) and another risk indicator (i.e. DSTI ratio above 50% or DTI ratio above 9%); compliance is ensured via a formal comply-or-explain report, which institutions have to submit to the NBB on a yearly basis.
CBMs	Sectoral SyRB at 9% for real estate exposures. Since May 2022, this measure has replaced the previous risk-weight measure referred to in Article 458 CRR. As of April 2024, the Belgian authorities are planning to lower the sectoral SyRB from 9% to 6%. CCyB at 1% from 1 October 2024.

Policy assessment

The current policy mix is considered to be appropriate and sufficient. The supervisory expectations of the NBB with regard to the internal management of Belgian mortgage credit standards, which are intended to counter a further build-up of vulnerabilities, seem to be effective, as the proportion of mortgage loans with risky lending standards has been reduced. The authorities should continue monitoring vulnerabilities and ensure compliance with the BBMs. The sectoral SyRB at 9% of real estate exposures has been assessed as appropriate for addressing the accumulated vulnerabilities. The ESRB assessment team will ascertain whether the planned lowering of the sectoral SyRB to 6% is sufficient.

5.3 Bulgaria

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated house price growth (RRE prices mixed across regions), signs of house price overvaluation and high mortgage credit growth. Annual growth in mortgage loans has accelerated in Bulgaria, from around 3% in early 2017 to around 13% in the first half of 2021, and house prices have grown moderately over the last two years. Approximately 98% of loans had variable rates, making households vulnerable to interest rate changes. The strong growth in mortgage lending may be the result of a catch-up process, an increase in housing supply or renovation activities carried out, for example, for energy efficiency purposes.

The housing market in Bulgaria is in continued expansion. Annual nominal house price growth slowed somewhat in the first half of 2023, to around 10% from around 14% in 2022. House price growth was strong in the context of strong inflation and income growth and high liquidity in the banking sector. At the same time, lending to households for house purchase increased strongly over the 12 months to September 2023, with average year-on-year growth of around 18%. New loans to households for house purchase peaked in June 2023 at 22%. Different valuation metrics present a mixed picture of house price valuation. The Bulgarian housing cycle seems to lag behind the cycle of most European countries, as the increase in interest rates started somewhat later (in December 2022 and March 2023) and was more muted than in the euro area. In addition, the pass-through of interest rates is more limited due to banking sector liquidity conditions, as well as the Euribor not being included in the calculation of lending rates. Nevertheless, as housing transactions have declined since the fourth quarter of 2022, a slowdown in the market in the short-term is still possible. However, the latest European Commission forecasts for Bulgaria point to robust annual GDP growth in 2024-25, suggesting a potential rebound in the real estate market in the medium term.

Mortgage loans continue to be granted with a high debt service burden for borrowers. New mortgage lending includes a low proportion of loans with high LTV ratios. However, the proportion of new loans with riskier DSTI ratios (over 40%) is high. In its latest press release on the CCyB and reserve requirement measure, Българска народна банка (Bulgarian National Bank – BNB) included a warning to banks to stay vigilant and be prudent in their lending standards.[17]

Given the currency board arrangement, the ongoing tightening of monetary policy in the euro area is expected to be passed through to Bulgarian interest rates in the months to come and is expected to curb the elevated credit growth rates, alongside the increase in banks' reserve requirements. The impact on households should be monitored carefully, owing to a high proportion of variable-rate housing loans. The current levels of indebtedness indicators in Bulgaria are a mitigating factor for the risks stemming from a potential decline in the debt servicing capacity of borrowers.

[17] See the BNB press release dated 26 September 2023.

Policy mix

CBMs	Article 124 CRR measure setting stricter criteria for RRE exposures under the standardised approach for the calculation of capital requirements. A risk weight of 35% is assigned to the part of the exposure secured by mortgages on residential property, which does not exceed 70% (compared with 80% under the CRR) of the collateral value, SyRB at 3%, CCyB at 2% from 1 October 2023 (increased in September 2022).

Policy assessment

The current policy mix is considered to be partially appropriate and partially sufficient. Several macroprudential measures are in place in Bulgaria to mitigate RRE vulnerabilities. While an adequately calibrated CCyB rate may help to address vulnerabilities related to the high credit growth by increasing the resilience of the banking sector, the Bulgarian authorities should consider supplementing the CCyB with legally binding BBMs. Particularly when used as preventative measures, appropriately calibrated BBMs help to counter the accumulation of further risks stemming from the combination of relaxed lending standards together with house price and credit dynamics, by ensuring sound lending standards and increasing borrowers' resilience. The national authorities should consider using one or several legally binding BBMs to ensure the effectiveness of the measures and to minimise the potential for their circumvention. Another vulnerability worth mentioning, but which goes beyond macroprudential policy, is the excess liquidity in the banking system, which has the potential to cause overheating in the RRE market through rapid credit expansion, and an increase in financial stability risks. On 26 April 2023, the BNB Governing Council decided to increase banks' minimum required reserves with the objective of absorbing part of the current excess liquidity in the banking system and helping to reduce the free resources that banks may use to extend loans. More generally, the authorities should continue monitoring vulnerabilities and adopt appropriate policy actions, when needed, while taking into account the position in the economic and financial cycle to avoid the procyclical impact of this policy action. All these measures should complement the existing – and possibly recalibrated – macroprudential CBMs in Bulgaria, in order to mitigate medium-term vulnerabilities in the Bulgarian RRE sector as a source of risk to financial stability.

5.4 Croatia

Vulnerabilities

The key vulnerabilities identified in 2021 related to signs of house price overvaluation, elevated house price growth, high mortgage credit growth and relatively loose lending standards. In 2020, Croatia suffered two earthquakes that shed light on the construction quality standards of dwellings built before the 1960s (before anti-seismic standards were introduced), which further reduced the stock of housing to be transacted. On the demand side, the extension of the housing subsidy scheme for first-time buyers by the Government in 2020 was identified as a factor further increasing demand for owner-occupier housing, leading to higher overvaluation of house prices, as well as household indebtedness. Moreover, mortgage credit growth picked up and accelerated in the second half of 2019, driven by government-subsidised loans.

The housing market in Croatia is in continued expansion, with some signs of a slowdown and a possible turnaround. Nominal house prices have grown rapidly (around 15% in 2022 and around 14% in the first half of 2023), supported by high liquidity in the banking system with no instrument available to absorb it, and strong non-credit domestic and foreign purchases (accounting for approximately one-half of the total), as well as by the government subsidy programme for young first-time home buyers. At the same time, the number of real estate transactions has been continuously declining since mid-2022, averaging -14% annually in the second half of 2022 and the first half of 2023.

Loans to households have continued to increase year on year. Loans for house purchase continued increasing in 2022 by 10.5% year on year and remained robust at 10.2% in October 2023. However, signs of a slowdown appeared in the third quarter of 2023, as new loans for house purchase declined by around 19%, compared with the same period in 2022. The impact of monetary policy tightening on borrowers' capacity to service debt has been mitigated by abundant liquidity in the banking system, limiting the pass-through of higher interest rates, as well as a government subsidy programme for new housing loans, and by a relatively high proportion of loans with fixed interest rates. Moreover, under the government subsidy programme for new housing loans, between 30% and 50% of eligible borrowers' debt service costs are alleviated in the first five or more years, depending on factors such as the number of children in the family and the location of the property. In addition, there is a legal limit on variable interest rates on housing loans. This is calculated as an average interest rate on all non-fixed housing loans (excluding those with rates fixed to maturity) increased by one-third, and currently stands at 3.73%. It prevents excessive increases in repayment costs. At the same time, however, there has been an uptake of unsecured consumer loans.

The share of loans with risky LTV ratios and/or high-DSTI ratios is relatively high compared with other EEA countries. In particular, the share of new loans with an LTV ratio over 90% decreased slightly towards the end of 2022, but remained high in the first half of 2023.[18] Similarly, the proportion of loans with DSTI ratios above 40% remained high in the second half of 2022 and in early 2023.[19]

18 The LTV values to some extent follow a cyclical pattern, which is related to the housing subsidy programme, as the loans subsidised by the Government are predominantly granted with LTVs of between 90% and 100%.

19 Regarding DSTI ratios, government-subsidised loans have similar characteristics to other housing loans not included in the subsidy programme.
In calculating debt service ratios, the Croatian authorities took a conservative approach, including total debt from overdrafts and credit card debt with the assumed maturity of 12 months, which might influence the relatively high DSTI ratios compared with other EU countries.

Policy mix

BBMs	Implicit DSTI limit (25% for borrowers with below-average income, for other borrowers increasing with income level); based on the EBA Guidelines on the creditworthiness assessment and the EBA Guidelines on arrears and foreclosure.
CBMs	Article 124 CRR measure setting a stricter definition of residential property for preferential risk-weighting, SyRB at 1.5% (defined in accordance with the Capital Requirements Directive V (CRD V), CCyB at 1.5% from June 2024 (announced in June 2023).

Note: CRD V refers to ***Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions (OJ L 176, 27.6.2013, p. 338)****.*

Policy assessment

The current policy measures are assessed as being partially appropriate and partially sufficient. Several macroprudential measures are in place in Croatia to mitigate the current RRE vulnerabilities. However, given the recent developments in the RRE sector, further policy measures are warranted to address the vulnerabilities in medium term. While an adequately calibrated CCyB rate can help to address vulnerabilities related to high credit growth by increasing the resilience of the banking sector, the Croatian authorities should consider complementing the CCyB by activating additional, or tightening existing, legally binding BBMs. Particularly when used preventatively, appropriately calibrated BBMs help to counter the accumulation of further risks stemming from the combination of relaxed lending standards together with house price and credit dynamics, by ensuring sound lending standards and increasing borrowers' resilience. There are also important structural factors that have driven the vulnerabilities. The first is the lack of adequate housing supply, which has been exerting upwards pressure on house prices and debt for households that buy their own property. The second structural factor is government subsidies for mortgage loans, which have contributed to an increase in house prices and credit growth.[20] The current subsidy programme has come to its scheduled end, without announcements of any further extensions. If the programme were to be continued, supplementary policy adjustments designed to alleviate this impact would be warranted. In addition, further structural measures, such as property taxes and measures to develop rental housing markets, could be considered factors that have helped to generate RRE-related vulnerabilities. Another structural factor worth mentioning, but which goes beyond macroprudential policy, is the excess liquidity in the banking system, which may potentially lead to an overheating of the RRE market through rapid credit expansion, and an increase in financial stability risks. Addressing this vulnerability efficiently would be important from a financial stability perspective. More generally, the authorities should continue monitoring vulnerabilities and adopt appropriate policy actions, while taking into account the position in the economic and financial cycle, in order to avoid the procyclical impact of this policy action. All these measures should be added to the capital-based and other macroprudential measures in Croatia, with the aim of mitigating medium-term vulnerabilities in the country's RRE sector as a source of risk to financial stability.

[20] See Kunovac, D. and Žilić, I. (2020), **Home sweet home: The effects of housing loan subsidies on the housing market in Croatia**, *Working Papers*, W-60, Hrvatska narodna banka.

5.5 Cyprus

Vulnerabilities

In the previous ESRB analysis in 2021, Cyprus was identified as having a low level of vulnerabilities. Lending growth turned positive in August 2021, from the negative rates observed in December 2019, and banks' exposures to mortgage loans remained some of the lowest in the EU. The household debt-to-GDP ratio was, however, one of highest in the EU, despite being on a downwards trend. This resulted in Cyprus being viewed as high risk in terms of debt service ratios.

The housing market in Cyprus is showing signs of a slowdown. While nominal house price growth was somewhat stable before 2022, it increased steadily after that point to 6% in year-on-year terms in the first quarter of 2023. A reduced, albeit still robust, growth of 3.2% in annual terms in the second quarter of 2023, together with negative quarterly house price growth in the second quarter of 2023, may, however, point to possible future moderation. Housing transactions grew strongly in 2022, though somewhat less in the fourth quarter of 2022 and in the first quarter of 2023. The buoyancy of the housing markets seems to be partly related to a headquartering effect, as staff working at headquarters established in Cyprus increases demand for housing.

Growth in mortgage credit continued, even though growth rates have been slowing in quarter-on-quarter terms since February 2023. According to the euro area bank lending survey, new loans decreased from mid-2022 to mid-2023 in year-on-year terms and then stagnated on account of the surge in interest rates, the housing market outlook and consumer confidence. The impact of interest rates is even more pronounced due to the very high proportion of loans with variable interest rates. Household indebtedness remains high, but has decreased somewhat since mid-2021. Moreover, the proportion of households with elevated LTI is higher than in other EEA countries.

Policy mix

BBMs	LTV at 70-80% since 2021 and DSTI at 80% of net disposable income.
CBMs	CCyB at 0.5% from end-November 2023 and 1.0% from June 2024.

Policy assessment

The macroprudential policies are assessed as appropriate and sufficient. The authorities should continue monitoring vulnerabilities, ensure compliance with the BBMs and consider increasing capital buffers if vulnerabilities build up.

5.6 The Czech Republic

Vulnerabilities

The key vulnerabilities identified in 2021 related to house price overvaluation, high and accelerating house price growth, high mortgage credit growth and the loosening of lending standards. In 2020, Česká národní banka (CNB) relaxed or removed certain BBMs, after which the granting of credit with risky loan characteristics increased slightly. The overvaluation of apartment prices was identified as the result of a mismatch between housing supply and demand. The demand for housing had been possibly sustained by the abolition of the property transfer tax in the first half of 2020, among other factors. Subdued construction activity, which followed the onset of the pandemic, was identified as a factor that contributed to the structural mismatch between housing supply and demand.

The housing market in the Czech Republic is in a downturn. After nominal house price growth rates of more than 20% year on year, these rates declined sharply in the second half of 2022 and turned negative in the second quarter of 2023. The number of housing transactions recently decreased, according to the CNB, which also suggests a turning point in the housing markets. Overvaluation measures corrected somewhat. Price developments are mixed, with prices stagnating for apartments and increasing for houses, and with differences between prime- and non-prime housing. The CNB expects prices to drop by about 5% in 2023.

Annual and quarterly growth in the stock of housing loans to households has remained high but moderating since early 2023. Meanwhile, new loans for house purchase started decreasing year on year in the first quarter of 2022 as the CNB started raising its monetary policy rates in June 2021. At the end of the third quarter of 2023, new loans again picked up slightly. As most loans for house purchase are at fixed rates for five years or longer, households are to some extent protected against the impact of higher interest rates over the maturity of their loans. While the share of high DTI/LTI ratios decreased in the first half of 2023 compared with 2022, following the introduction of BBMs, the proportion of high-DSTI/LSTI ratio loans remained high.

Policy mix

BBMs	LTV limit of 80% (90% for borrowers under the age of 36), DTI limit of 8.5 (9.5 for borrowers under the age of 36) with an exemption of 5%; DSTI limit discontinued as of July 2023.
CBMs	CCyB of 2.5% applicable from April 2023, 2% from October 2023, institution-specific O-SII buffer of 0.5-2.5%, replacing the previous SyRB buffer of 1-3%, which was applicable until 30 September 2021.

Policy assessment

The current policy measures are assessed as being appropriate and sufficient. Given the overvaluation of house prices, as well as the continued growth in the stock of housing loans, credit standards for new mortgage loans need to be carefully monitored, along with the effect of the recent discontinuation of the DSTI limit. The CCyB is an appropriate tool that can help to address the high credit growth by increasing the resilience of the banking sector to adverse developments. If the vulnerabilities start to build up, a tightening of BBMs (including the reintroduction of a DSTI limit) and the implementation of a (sectoral) SyRB should be considered.

5.7 Denmark

Vulnerabilities

The key vulnerabilities identified in 2021 related to high and accelerating house price growth, signs of house price overvaluation, high household indebtedness, a large (and increasing) proportion of loans with deferred amortisation among outstanding loans and interconnectedness with the Nordic banking system. Price growth accelerated throughout 2020 and 2021, supported by low housing supply and record levels of trading activity. Generous rules on interest rate tax deductibility for mortgages drove up household indebtedness, which was still among the highest in the EU. The proportion of existing mortgage loans with deferred amortisation was significant, making households structurally more vulnerable to adverse economic conditions.

The housing market in Denmark is levelling off. After peaking in the second quarter of 2021, when they grew by around 15% year on year, nominal house prices started declining, as high inflation, higher interest rates and uncertainty over the outlook affected the Danish economy. As a result, house prices declined by 7.9% and 7.6% year on year in the first and second quarters of 2023 respectively. Nevertheless, the quarterly dynamics rebounded to 0.7% in the first quarter of 2023 and 1.6% in the second quarter. Current estimates suggest that overvaluation has eased. Housing transactions have been declining year on year since the third quarter of 2021. High household indebtedness remains a vulnerability, although it has been falling since mid-2021. While mortgage loan growth has remained subdued, a relatively high proportion of loans at variable rates (about 50% in the first quarter of 2023) and high LTVs have increased the vulnerability of households. Given that many loans are interest-only, higher interest rates have a major impact on borrowers’ loan costs. In addition, the proportion of new loans with variable interest rates has increased significantly since mid-2021. This is partly due to the fact that some homeowners have refinanced their fixed-rate loans with new variable-rate loans. On a positive note, these particular borrowers have managed to reduce their outstanding mortgage debt by repaying, given the lower market value of their fixed-rate mortgages. Besides structural factors, another vulnerability stems from the fact that lending standards remain relatively loose, with a high proportion of loans with an LTV ratio above 90% in the second half of 2022. In addition, mortgage lending has recently shifted from fixed to variable interest rates. These factors exacerbate the financial stability risks stemming from the real estate markets.

The national authorities have made efforts to tackle structural factors related to RRE vulnerabilities, but the measures adopted are limited in nature. The Danish authorities have mentioned that the existing tax deductibility of interest rate expenses will be retained and argue that such schemes maintain a balance between paying off a mortgage and making investments. If the benefit from tax deductibility is too low, investments become unattractive, which is undesirable from a whole-society perspective. The Danish authorities also point out that the maximum amount for the highest tax deductibility rate is nominally fixed, which means that over time a larger fraction of interest rate payments will gradually be subject to a lower tax deductibility rate. In order to tackle the lack of housing supply, a majority in Parliament agreed to initiatives to increase housing in major cities, including affordable housing for students, which would reduce the demand from parents purchasing homes for their children. A new housing taxation system will target the growth in house prices from 2024. An update of housing valuation will result in heavier taxation of new sales in urban areas where prices have risen since the last housing valuation in 2011. This taxation system is intended to counter excessive growth in house prices in urban areas, as it will become more expensive to own housing.

Policy mix

BBMs	LTV: minimum downpayment requirement of 5%; DTI: wealth requirement at loan origination linked to DTI in larger cities: new borrowers in growth areas with a DTI above 4 (5) should have sufficient wealth to ensure that net wealth remains positive if house prices drop by 10% (25%); DTI/LTV: mortgage product restriction linked to DTI and LTV: new borrowers with a DTI above four and LTV above 60% should have an interest rate fixation period of at least five years and can only obtain deferred amortisation if the interest rate fixation period is 30 years. "Supervisory Diamond" for mortgage banks: a package of microprudential measures with macroprudential effects targeting the characteristics of the stock of mortgage loans.
CBMs	CCyB of 2.5% as of the end of March 2023.

Policy assessment

The current policy measures are assessed as being partially appropriate and partially sufficient. The Danish authorities should continue monitoring vulnerabilities, in particular high household indebtedness and lending standards, in a situation of a high proportion of non-amortising loans and the increasing proportion of loans at variable rates. They should continue implementing the earlier ESRB recommendation, taking into account the position in the economic and financial cycles. In particular, the authorities should introduce BBMs to address risks related to non-amortising loans and loans with high LTV and DTI values, further increase capital buffers if vulnerabilities build up (by, for example, considering a risk-weight floor for IRB banks), and pursue policy actions to address housing market vulnerabilities beyond the macroprudential remit.

5.8 Estonia

Vulnerabilities

The key vulnerabilities identified in 2021 elated to signs of house price overvaluation, high house price growth, high (mortgage) credit growth and high growth in household indebtedness. Income growth, savings growth, and a pension system reform exerted upwards pressure on house prices. Household indebtedness was mostly affected by rising mortgage lending, supported by favourable credit conditions. The Estonian banking sector is also interconnected with that of other Nordic countries, making it vulnerable to potential spillovers in the event of a downturn in the financial sectors of neighbouring countries.

The housing market in Estonia is showing signs of a slowdown. Annual nominal house prices grew very strongly throughout 2022, leaving the market slightly overvalued, according to Eesti Pank's estimation. After peaking at 27.4% in the second quarter of 2022, house price growth started decreasing in year-on-year terms to reach 5% in the second quarter of 2023. During the four quarters preceding the second quarter of 2023, the official house price index remained stable, according to Eesti Pank. The dynamics of prices in different segments of the market have diverged. For new apartments, according to Eesti Pank, prices continued to rise, although at a decelerating pace, as a large proportion of the transactions are agreed beforehand. Prices of existing apartments, particularly in the region of Tallinn, declined slightly and then stagnated.

Lending to households for house purchase has also slowed. New loans for RRE purchases started decreasing in October 2022 compared with a year earlier, reaching a low of around 37% in early 2023. In September 2023, the volume of new loans for house purchase was 14.6% smaller year on year. According to the euro area bank lending survey, lending conditions for loans to households for house purchase have tightened, and demand from households for loans for house purchase has declined on account of higher interest rates, lower consumer confidence and the housing market outlook. The effect of the recent increase in interest rates on borrowing costs is significant, owing to the high proportion of variable-rate loans in Estonia (around 95%). At the same time, the labour market is expected to remain strong, which should dampen the effect of higher interest rates on housing markets. Lending standards are currently still quite robust, with a very low proportion of loans with risky LTV or DSTI ratios.

Policy mix

BBMs	LTV limit of 85% (90% if guaranteed by KredEx), DSTI limit of 50% calculated using stressed interest rates (interest rate plus 2 percentage points, or an annual rate of 6%, whichever is higher) and maturity limit of 30 years with up to 15% allowance to breach the limit.
CBMs	CCyB of 1.5% from December 2023, Article 458 CRR risk-weight measure applicable to IRB banks.

Policy assessment

The current measures are deemed to be appropriate and sufficient to address the underlying risks. Nevertheless, the authorities should continue monitoring vulnerabilities. If vulnerabilities build up, e.g. in the form of a loosening of lending standards, BBMs may be tightened (e.g. tightening of the flexibility rules for the BBMs), and/or capital buffers may be increased.

5.9 Finland

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated and rising household indebtedness, high levels of growth in indirect real estate lending to households through housing company loans, the easing of lending standards for new loans and interconnectedness with the Nordic banking system. Growing housing company loans and long amortisation-free periods right at the start of the loan period and the acceleration in the construction of apartments in recent years may have incentivised households to take on debt. For new properties, loans via a housing company can make up most of the debt-free price of apartments. It may have increased investor demand in the past and driven up prices.

The RRE market in Finland is in a downturn. The decline in nominal house prices started in the third quarter of 2022, accelerating in the second quarter of 2023 to 5.6% year on year. Currently, house price valuation models point towards a moderate undervaluation of house prices in Finland. Also, the year-on-year decrease in the number of housing transactions accelerated substantially in the first quarter of 2023, continuing a trend that started in the second quarter of 2022.

Weak housing market activity is also visible in mortgage trends. In fact, new housing loans had already started declining in year-on-year terms at the end of 2021. According to the euro area bank lending survey, housing demand decreased in 2022 and in the first quarter of 2023, owing to higher interest rates, lower consumer confidence and the housing market outlook, although demand was expected to increase in the second quarter of 2023.

Despite a decline in the aggregate debt-to-income ratio since the end of 2021, household indebtedness remains high. Although direct mortgage lending has remained moderate and new loans to households for house purchase have recently declined, housing company loans remain a concern, as part of household debt is being channelled through them. Another concern is linked to the high proportion of variable-rate mortgages that, together with inflation, are reducing household disposable income and increasing credit risk.

Lending standards remain a source of vulnerability, as the proportion of loans with relatively high LTV ratios is among the largest in the EU.[21] However, these declined in 2022 and in the first half of 2023, and the proportion of risky DSTI ratios (over 40%) is relatively small, despite a high proportion of loans with variable rates. Interlinkages within the Nordic banking system add to these vulnerabilities, owing to exposure to, and possible contagion effects from, other real estate markets in the Nordic countries.

[21] In Finland, borrowers may also provide collateral other than the apartment or house purchased, as the binding regulation applies to the LTC ratio rather than to the LTV ratio.

Policy mix

BBMs	LTC (loan-to-collateral) limit of 85% for non-first-home buyers and 95% for first-home buyers, recommendation of a stressed DSTI limit from 2023. New tools, including a maximum maturity of 30 years for mortgages and housing company loans, as well as an LTV limit of 60% and amortisation requirements for housing company loans for new construction, became effective in July 2023.
CBMs	SyRB of 1% from April 2024.

Policy assessment

The current policy measures are assessed as being appropriate and sufficient. The implementation of further BBMs, and the announcement of a SyRB, effective as of April 2024, are welcomed. The authorities should continue monitoring vulnerabilities and implementing previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, they should continue efforts to establish a legal framework and introduce legally binding income-based measures, and further increase capital buffers if vulnerabilities build up.

5.10 France

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated household indebtedness, elevated housing lending growth, loose lending standards and signs of house price overvaluation in some large cities. National house prices in France had been growing steadily since 2015. Household debt in France was identified as high. More than 60% of households are homeowners, with more than a third having a housing loan, according to the Organisation for Economic Co-operation and Development (OECD). Housing loans represent about 80% of total household debt, according to the Haut Conseil de stabilité financière (High Council for Financial Stability – HCSF). Despite the introduction by the HCSF of a recommendation to banks on lending standards, lending to households remained dynamic. However, housing loans in France carry fixed interest rates.

The housing market in France is showing signs of a slowdown. The slowdown in the annual growth of nominal house prices continued in the second quarter of 2023 for the fourth quarter in a row, while in quarterly terms, house prices declined for the third time. Consequently, the indicators point to a slight house price undervaluation. In addition, the decline in housing transactions that started in 2022 accelerated in the first quarter of 2023. Previously strong growth rates in household loans for house purchase have recently slowed, and new loans for house purchase have been declining year on year since mid-2022. The euro area bank lending survey suggests that higher interest rates, lower consumer confidence and a worsening housing market outlook have led to lower demand for housing loans on the part of households in recent quarters.

Lending standards have improved since the implementation of BBMs. While the proportion of loans with risky LTV ratios is the highest among the EU countries reporting these numbers, the average LTV on new RRE loans decreased by 4.5 percentage points, to 80.5%, and the proportion of loans with an LTV ratio over 100% decreased by 13.8 percentage points, to 17.7%, between the first quarter of 2020 and the first quarter of 2023. As the French model of housing credit is based on the assessment of the borrower's revenues, and given the high proportion of loans guaranteed by a financial institution in France, monitoring DSTI ratios is more relevant than monitoring LTVs to analyse the health of the housing credit market.[22] DSTI limits, which have been legally binding since January 2022 and are complied with by all banks as of the first quarter of 2023, have helped to keep the proportion of risky DSTI ratios low. In addition, a high proportion of fixed-rate housing loans (98.5% of housing loan production in March 2023) adds resilience to the increase in interest rates.

Policy mix

BBMs	DSTI limit of 35%, maturity limit of 25 years.
CBMs	CCyB of 0.5% as of April 2023 and 1% as of January 2024.

Policy assessment

The current policy measures are assessed as being appropriate and sufficient. BBMs are considered to be well suited to maintain sound lending standards, while the CCyB increases the resilience of the banking sector to adverse shocks. As a further way to improve lenders' resilience, the authorities should consider further increasing capital buffers if vulnerabilities start to build up.

5.11 Germany

Vulnerabilities

The key vulnerabilities identified in 2021 related to house price overvaluation, high house price growth, signs of loosening of lending standards and significant data gaps. House prices rose in large cities and urban areas, reflecting a shortage of supply relative to demand. Structural characteristics in Germany were identified as factors explaining lower lending margins: for example, mortgage lending values are used, rather than substantially higher and more volatile

[22] Housing loan guarantors are financial institutions subject to ACPR (*Autorité de Contrôle Prudentiel et de Résolution* – French insurance supervisory authority) supervision. Every two years, the ACPR performs a dedicated stress test on the main housing loan guarantors, based on the same scenarios and methodology as those set by the ESRB and the European Banking Authority (EBA), to make sure they can continue to cover the losses of French banks, even in a severe downturn. (The results of this exercise are shared with ECB Banking Supervision as part of the quality assurance process on French banks' submissions.)

market values, amortisation rates are high and only a very small share of lending is at variable interest rates.

The housing market in Germany is in a downturn. The strong year-on-year growth rates of nominal real estate prices decreased over 2022, turned negative in the fourth quarter of 2022 and further declined to -9.6% in the second quarter of 2023. This has led to a correction in the previous overvaluation of house prices, according to ECB estimates. While prices of new flats are stable, the prices of old and less energy-efficient flats are decreasing. New loans to households for house purchase have been declining steeply since mid-2022.

Available sources suggest that lending standards have improved somewhat. A framework for collecting data for lending standards has been set up, with data collection launched in 2023. However, as is to be expected with a new data collection, adjustments still have to be made to the implementation of some of the data definitions at reporting institutions, in order to obtain harmonised results. Once considered sufficiently robust for such purposes, the new data set will be used for risk assessments, as well as the calibration of macroprudential instruments, in case their activation is deemed necessary. So far, alternative data sources suggest that DTI and LTV ratios have declined on average, while DSTIs have increased due to higher interest rates. Currently, there seem to be fewer loans under risky lending standards, as lower-income households can no longer afford to purchase RRE. The results of the euro area bank lending survey point to a tightening of lending conditions, along with a decline in household demand for loans for house purchase.

The situation in the household sector is currently robust, due to solid labour market conditions. Households that take out loans for house purchase tend not to belong to the lower income quantiles, and are thus able to cope more effectively with the current inflationary environment, by reducing savings and because the proportion of their income spent on essentials is lower. Financial stress may arise in the event of an abrupt change in the labour market situation, and for households with loans that were taken out at very low rates and will have to be refinanced at higher rates. However, most existing borrowers are shielded by long interest rate fixation periods.

Policy mix

CBMs	Sectoral SyRB of 2% for RRE loans from April 2022, CCyB of 0.75% from February 2023.
Other	Regular data collection on real estate lending conditions put in place, the Deutsche Bundesbank received first data for Q1 2023.

Policy assessment

The current policy mix is considered to be partially appropriate and partially sufficient. The sectoral SyRB put in place with effect from February 2023 should increase the resilience of the banking sector to risks which might have accumulated in the absence of BBMs over the last few years. The ESRB welcomes the new availability of data on lending standards, which should help to identify potential pockets of vulnerabilities. In order to address housing market-related vulnerabilities, the previous ESRB recommendation should be implemented, taking into account the position in the economic and financial cycles. Based on the outcome of the analysis, this includes a further increase in capital buffers to address potential accumulated vulnerabilities, completion of the legal framework for BBMs and the introduction of BBMs (LTV limits and at least one income-related instrument) to keep lending standards sound going forward.

5.12 Greece

Vulnerabilities

In the previous ESRB analysis in 2021, Greece was identified as having a low level of vulnerabilities. Greece was one of the few EU countries to have continuously recorded negative rates of lending growth. One of the risk factors was, however, the debt servicing capacity of households, in the light of a high household debt-to-GDP ratio. Furthermore, as prudential and fiscal measures related to the COVID-19 crisis were being phased out, a deterioration in asset quality was expected to take place due to the high proportion of mortgage loans under moratoria.

The housing market in Greece continues to expand. The annual growth rates of nominal house prices gradually increased from around 4% in 2021 to 14% in the second quarter of 2023. Despite strong house price dynamics, valuation metrics indicate that house prices are still undervalued. Both housing loan stock and new mortgage lending continued to decline, with households still deleveraging from the legacy of high indebtedness from the sovereign debt crisis. According to the euro area bank lending survey, loan demand from households has declined in recent quarters on account of higher interest rates, lower consumer confidence and a worsening housing market outlook.

Lending standards are relatively prudent. The proportion of loans at risky LTV or DSTI ratios is contained. Nevertheless, the proportion of loans with somewhat higher DSTI ratios increased in the second half of 2022 and the first half of 2023. This reflects higher interest rates, combined with lower real disposable income owing to high inflation rates. Vulnerabilities relate to households that have recently restructured their loans at higher interest rates, combined with lower real disposable income, and to those households that have taken out loans in other currencies.

Policy mix

No macroprudential measures in place.

Policy assessment

The current policy measures are assessed as being appropriate and sufficient. The authorities should continue monitoring the vulnerabilities and consider introducing BBMs as a preventative measure to keep lending standards sound.

5.13 Hungary

Vulnerabilities

The key vulnerabilities identified in 2021 related to signs of house price overvaluation, elevated house price growth, high (mortgage) credit growth and high growth in household indebtedness. Government subsidies and support loans were identified as a factor increasing demand for owner-occupied housing. As supply could not adjust in terms of time and quantity, due to bottlenecks in the construction industry and the changing regulatory environment, this led to higher overvaluation of house prices, greater household indebtedness and growing mortgage credit. The rental market in Hungary was defined as relatively underdeveloped, which was identified as an additional source of pressure on prices of owner-occupied housing.

The housing market in Hungary is in a slowdown, with a significant drop in transactions and deceleration in housing price dynamics. After annual growth rates in nominal house prices of more than 20% in the four quarters preceding the third quarter of 2022, house price growth declined to around 2.8% year on year in the second quarter of 2023, turning negative in quarter-on-quarter terms. The number of housing transactions declined by 30%, 43% and 31% year on year respectively in the fourth quarter of 2022 and the first and the second quarters of 2023, according to Magyar Nemzeti Bank (MNB) calculations.

The annual growth of the stock of loans to households for house purchase gradually decreased from its peak of around 15% in early 2022 to around 1% in September 2023. At the same time, the quarterly growth rate of the mortgage stock was negative at the beginning of 2023. The increase in interest rates, which was more pronounced than in other European countries, owing to stronger and earlier monetary policy tightening due to higher levels of inflation, seems to have been an important factor in the decline in loan demand, as well as the uncertainty over economic conditions, which has negatively affected household demand. In addition, mortgage lending standards have been affected, to a certain degree, by the interest rate increase, as the proportion of loans at higher (>70%) LTV ratios declined somewhat from an already low level, probably due to a change in the composition of borrowers, as it became more costly to take out loans. The proportion of loans at higher (>40%) DSTI ratios increased, owing to higher interest rates and the significant drop in lending volumes in the first half of 2023. Outstanding loans were also negatively affected in late 2022 by increased repayment activity after the loan moratoria ended. Meanwhile, there has also been a decline in loan disbursements related to some government family measures. Recently, the Government has announced a limitation of state subsidised programmes (such as the “CSOK” for families having children and prenatal loans) from 1 January 2024, while also introducing the “CSOK Plus” subsidised housing loan for families planning to have children. These changes in Government programmes may slightly increase housing demand in 2024 from its bottom point. In the fourth quarter of 2022, more than 70% of new mortgage loans had interest rates fixed for ten years or until maturity. In contrast, new loans with a one-year fixation period or variable rate were almost nil in the first half of 2023, down from about 40% in 2017.

Policy mix

BBMs	LTV limit of 80%, which may be further lowered to 35% (depending on the currency), DSTI limit of 50% (60% for higher-income households), which may be further lowered to a minimum of 25% (depending on the currency and interest rate fixation period). Counterbalancing high inflation and rising wages, and preserving the effectiveness of the regulation, from 1 July 2023 the income thresholds applicable for higher-income households were increased from HUF 500,000 to HUF 600,000 and the de minimis threshold for application of the regulation was also increased, from HUF 300,000 to HUF 450,000.
CBMs	CCyB rate increase to 0.5%, initially planned from July 2023, postponed by one year until July 2024. The MNB has announced the reactivation of the SyRB from 1 July 2024 due to risks in the commercial real estate (CRE) market.

Policy assessment

The current macroprudential policy measures are assessed as appropriate and sufficient. In the context of the current slowdown in the RRE market, the activation of the CCyB and a SyRB (for CRE) as of July 2024, and the adjustment of BBMs decided in July 2023, are assessed as being sufficient and appropriate to address risks. The authorities should continue monitoring vulnerabilities in the RRE market, and, should the vulnerabilities start to increase again, further introduce macroprudential measures (e.g. a tightening of BBMs, the CCyB or the SyRB).

5.14 Iceland

Vulnerabilities

The key vulnerabilities identified in 2021 related to high household indebtedness, elevated house price growth, signs of house price overvaluation, some concerns about lending standards and persistent housing credit growth. Mortgage lending was the driver of developments in household indebtedness.

The housing market in Iceland is in continuing expansion. Nominal house price growth reached a peak of around 24% year on year in the third quarter of 2022, slowing to 10% by the second quarter of 2023, thus remaining strong. In quarterly terms, nominal house price growth turned negative in the first quarter of 2023, before reverting to 2.5% in the second quarter. The number of sales also decreased significantly, putting downward pressure on house prices. The ratio of house prices to wages has started reversing, as wages have recently increased more than house prices, thereby reducing house price overvaluation.

Nominal household credit continued to increase strongly, albeit at declining rates. Mortgages in Iceland are either indexed to the Consumer Price Index (CPI) (47% of total mortgages in the second quarter of 2023) or non-indexed. The share of non-indexed fixed-rate loans (fixation period of either three or five years) has increased somewhat since 2021, at the expense of indexed loans, but has recently been decreasing. Approximately 3% of outstanding mortgage loans are non-indexed and have an upcoming interest rate reset in 2023. Around 10%

and 11% of these loans will follow suit in 2024 and 2025 respectively, making households vulnerable to the ongoing increase in interest rates. If the monetary policy stance remains tight, the debt servicing of these loans can be expected to increase at the end of the fixation period.

Household indebtedness is low in a historical perspective. No strong signs of increased payment difficulties have yet emerged. While the proportion of loans with risky LTV ratios is relatively low, the proportion of loans with risky DSTI ratios (over 30%) is higher. It also increased in the first half of 2023, due to higher interest rates and higher inflation.

Policy mix

BBMs	LTV limit of 80% for non-first-time buyers and 85% for first-time buyers, DSTI limit of 35% for non-first-time buyers and 40% for first-time buyers. The calculation of debt servicing in accordance with the rules will be based on either the contractual interest rate or the minimum rate of 5.5% for non-indexed loans and 3% for indexed loans, whichever is higher. For calculating the DSTI ratio, the maximum maturity is capped at 40 years for non-indexed mortgages and 25 years for indexed mortgages. Lenders are granted an exemption from the rules for up to 5% of the total amount of new mortgage loans issued each quarter.
CBMs	CCyB of 2% as of the end of September 2022 and 2.5% as of March 2024, SyRB of 3% on domestic exposure.

Policy assessment

With regard to medium-term risks, policy is assessed as being appropriate and sufficient. The authorities should continue monitoring risks related to variable-rate and CPI-indexed loans and adjust BBMs if needed to reflect vulnerabilities related to changing loan characteristics.

5.15 Ireland

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated but declining household indebtedness. Household indebtedness remained high, despite a continuous and consistent deleveraging process. The real growth rate of loans to households was gradually decreasing, but the Irish debt service ratio and debt as a share of disposable income were still among the highest in the EEA.

The housing market in Ireland is in a slowdown. Annual nominal house price growth remained positive at 2.8% in the second quarter of 2023. In quarterly terms, house prices decreased in the first and second quarters of 2023. Housing transactions also continued to decline in year-on-year terms in the first quarter of 2023, after increases in the first three quarters of 2022. Growth in stock of housing loans continued to be negative, due to the legacy of the sovereign debt crisis and the resulting deleveraging efforts by households. At the same time, new loans for house purchase started decreasing in year-on-year terms in the third quarter of 2023, after a period of high growth since mid-2022.

Household indebtedness decreased from high levels owing to a continuous and consistent deleveraging process. The last three years have been characterised by the continuation of the deleveraging process that began after the Irish sovereign debt crisis. Debt as a share of household disposable income has sharply decreased to a level significantly below the euro area average. Lending standards for new mortgage loans have remained strict.

Policy mix

BBMs	LTV of 70-90%, differentiated according to the type of borrower (first-time buyers as well as second-time and subsequent buyers: 90%) or the purpose of the acquisition (buy-to-let properties: 70%), LTI of 3.5-4 times gross income. Adjustments to the LTV limit (second-time and subsequent buyers' LTV lifted from 80% to 90%) and exceptions from the limits defined for each category of loans (allowances) were made in 2022.
CBMs	CCyB of 1.5% from June 2024.

Policy assessment

The current measures are deemed to be appropriate and sufficient to address the underlying risks. Nevertheless, the authorities should continue monitoring vulnerabilities. In particular, credit standards for new mortgage loans need to be carefully assessed, along with the effect of the recent adjustment of BBMs. In contrast, the tightening of the CCyB, as announced in June 2023, is a welcome measure that will increase banks' resilience. If vulnerabilities build up, BBMs may be readjusted and/or capital buffers may be increased (by introducing a sectoral SyRB or, in case of buoyant credit growth in general, further increasing the CCyB).

5.16 Italy

Vulnerabilities

In the previous ESRB analysis in 2021, Italy was identified as having a low level of vulnerabilities. Italy was the EU country with the lowest real house price growth rate and the second-highest ratio of household financial assets to financial liabilities.

The RRE market in Italy is showing signs of a slowdown. Nominal annual house price growth reached a peak of 5.2% in the second quarter of 2022 and then declined, mainly on account of higher interest rates. It remained slightly positive at 0.7% in the second quarter of 2023. Quarterly growth rates turned negative in the third and fourth quarters of 2022 and continued to oscillate around zero in the first quarter of 2023, before coming back into positive territory in the second quarter. In some regions, particularly around Milan, RRE has experienced much stronger price growth, though mainly in the higher price segment, which tends to correspond to mortgagors with higher incomes. Annual growth in new loans has been negative since early 2022, with strongly negative rates in 2023. Overall, house prices in Italy are estimated to be slightly undervalued.

The nominal stock of mortgage loans to households continued growing at moderate rates, with some decline in quarterly rates from March 2023. According to the euro area bank lending survey, the main factors behind the decrease in loan demand in recent months are higher interest rates and lower consumer confidence. Loan demand is expected to continue decreasing in the second quarter of 2023. Data on lending standards are being collected only for a short period, and will therefore be difficult to interpret until a longer time series is available.

Household indebtedness is low compared with other euro area countries and has been declining in recent years. The proportion of new loans at variable rates temporarily increased from around 15% in February 2022 to a peak of almost 70% in December 2022, amid an initially slower pass-through of the interest rate increases to variable-rate mortgages, but then reverted back to around 20% in September 2023. Variable-rate mortgages account for less than 40% of the total mortgages outstanding. Factors mitigating vulnerabilities are the widespread use of interest rate caps on variable-rate mortgages, as well as the accumulated wealth of households. Furthermore, households that pay smaller loan repayment instalments, which are more likely to be owed by lower-income households, have fewer variable-rate mortgages.

Policy mix

No macroprudential policies in place

Policy assessment

With regard to medium-term risks, policy is assessed as being appropriate and sufficient. The authorities should continue monitoring developments and a potential build-up of pockets of vulnerabilities in the RRE sector. These include the role of investment funds in driving house prices in some large cities. They should consider introducing BBMs as a preventative measure to keep lending standards sound.

5.17 Latvia

Vulnerabilities

In the previous ESRB analysis in 2021, Latvia was identified as having a low level of vulnerabilities. Latvia was the country with the lowest share of financial assets in total household wealth in the euro area (27%). The real household debt index had decreased since the fourth quarter of 2017. Lending growth turned positive in the autumn of 2021, compared with the negative rates observed at the end of 2019, while banks’ exposures to mortgage loans remained among the lowest in the EU.

The housing market in Latvia is continuing to expand. Annual house price growth peaked (17%) in the first quarter of 2022, with growth rates then declining to 5.6% in the second quarter of 2023, while remaining at high levels, particularly for new-build homes. High inflation rates, particularly on energy prices, have impacted new construction and boosted sales of energy-inefficient Soviet-era buildings in the context of higher energy bills for consumers. As a result, the prices of these buildings have decreased somewhat. Higher house prices and the rise in interest rates have made housing less affordable for many households.

Lending to households for house purchase was robust but has also moderated recently. According to the euro area bank lending survey, higher interest rates, a weakening housing market outlook and low consumer confidence all made a negative contribution to the demand for loans for house purchase. A high proportion of new loans at variable rates makes households more vulnerable to the interest rate increases. The proportion of loans with risky LTV ratios is relatively high, albeit decreasing, due to the fact that housing loans under the state support programme for families with children are subject to an alleviated 95% LTV cap. The authorities are currently considering how to design BBMs taking into account the energy efficiency of buildings.

Policy mix

BBMs	LTV limit of 70%, 90%, 95%. DSTI limit of 40%, DTI limit of 6, maturity limits of 30 years and 7 years.

Policy assessment

The current macroprudential measures are deemed to be appropriate and sufficient. Nevertheless, the authorities should continue monitoring housing-market-related vulnerabilities. If vulnerabilities build up, they may adjust BBMs (e.g. by adjusting the 95% LTV cap on housing loans with the state support programme), and/or consider introducing capital buffers (e.g. by introducing either a sectoral SyRB or, if credit growth becomes broad-based, a CCyB). In addition, it is essential that the Latvian authorities pursue structural housing market policies in order to steer investments to modernise the housing stock.

5.18 Liechtenstein

Vulnerabilities

The key vulnerability identified in 2021 related to elevated household indebtedness. Liechtenstein was identified as one of the countries with the highest levels of household debt in the EEA, making the household sector vulnerable to other unexpected macroeconomic shocks. The main structural factor identified was perceived tax incentives.

High household indebtedness continues to be the main source of systemic risk in Liechtenstein's real estate sector. The FMA estimated that household indebtedness in

Liechtenstein was 119%[23] of GDP at the end of 2022, making it one of the countries with the highest household debt in the EEA. The main reason for this is that, in Liechtenstein, for most housing loans, only the portion of the loan above an LTV ratio of 66% is amortising, meaning that a large portion of loans remain on banks' balance sheets. Preliminary analysis shows that the proportion of households with a DTI ratio higher than five is comparatively high, suggesting that high household indebtedness is not always accompanied by high household income. One mitigating factor is the high proportion of loans with a fixed mortgage rate, which dampens the effect of higher interest rates on households, although in recent quarters the proportion of variable-rate loans has been increasing at loan origination, since interest rates are also increasing in the Swiss franc currency area. In addition, the increase in monetary policy rates has been significantly lower than in other European countries so far, as inflation rates have also been lower.

In July 2023, the Liechtenstein Financial Stability Council (FSC) recommended a tightening of the existing BBMs, while activating new income-related measures to decrease household indebtedness. These measures are in line with the recommended policies outlined in the ESRB warning issued to Liechtenstein in 2021. The FSC recommended tightening the existing BBMs by reducing the amortisation period for loans with high LTV ratios. In addition, new income-related measures were intended to include an amortisation requirement based on the loan's affordability. The affordability requirement stipulates that the loan-service burden should not exceed 33% of household disposable income, with a hypothetical interest rate of at least 4.5%. If borrowers exceed this sustainable LSTI level, they will be subject to an amortisation requirement until the sustainable LSTI ratio is achieved. The FMA reflected these recommendations in its communication of September 2023. The measures are non-legally binding, as the appropriate legal basis is not available in Liechtenstein. Exceptions to the requirements may be permitted in some cases: however, banks are required to report loans as "exceptions to policy" whenever they overrule these guidelines on mortgage affordability and LTV levels.

[23] The debt-to-income and debt-to-GDP ratios for Liechtenstein are only approximatively comparable with those of other countries. Disposable income in Liechtenstein is calculated as the difference between total taxable income and the wealth and income tax. In addition, the total household debt figure is based on tax statistics, and debt is not defined on a consolidated basis (i.e. credit within the household sector or even within the family is also included). This definition issue inflates the headline number relative to other countries.

Policy mix

BBMs	LTV limit of 80% at loan origination or if the mortgage is expanded, increased reporting requirements for exceptions from the LTV limit and whenever an interest rate increase to at least 4.5% would entail a debt service burden of more than 37% of the annual household disposable income ("exception to policy"), requirement to amortise mortgage loans to a maximum LTV ratio of 66% within 15 years (tightened in September 2023), requirement to amortise mortgage loan to a maximum LSTI ratio of 33% of household disposable income when assuming an interest rate of at least 4.5% (introduced in September 2023).
CBMs	Article 124 CRR measure, setting standardised approach (StA) risk weights for mortgages with an LTV between 66% and 80% at 50% (rather than 35%, as in the "standard" CRR framework), sectoral SyRB of 1% for RRE and CRE loans.

Policy assessment

Considering the recent recommendation by the FSC, the macroprudential policy measures are deemed to be appropriate and sufficient to address the underlying risks. The mix of borrower-based and CBMs in place is designed to address stock and flow risks related to the high household indebtedness. The newly introduced income-related measure, in conjunction with the tightening of existing BBMs, are deemed to be appropriate and sufficient once they are fully introduced. The FMA should continue monitoring vulnerabilities and assess the impact of the recalibration of the SyRB into a sectoral SyRB and increase capital buffers if vulnerabilities build up.

5.19 Lithuania

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated growth in house prices, (mortgage) credit and household indebtedness. House prices continued to grow in 2021, while estimates indicated a rise in overvaluation. Savings increased significantly during the COVID-19 crisis, while conservative investment choices, such as housing, which are preferred in Lithuania, were identified as exerting upwards pressure on housing prices.

The housing market in Lithuania is in continued expansion. Nominal house prices continued growing strongly (around 9.4%) year on year in the second quarter of 2023, albeit at a slowing pace since the second quarter of 2022. According to Lietuvos bankas, officially registered home sales in the fourth quarter of 2022 were at their lowest level since the start of the pandemic and annual growth in new loans turned negative at the end of 2022, pointing to some possible moderation going forward.

The stock of loans to households for house purchase continued to grow strongly year on year. However, new lending has been decreasing since the end of 2022. According to the euro area bank lending survey, higher interest rates and a worsening outlook for housing markets have contributed to the decline in loan demand for house purchase. The DSTI ratios of new loans have been increasing owing to higher interest rates, combined with the large proportion of variable-rate loans. However, the average and median DSTI of new loans were stable between January and May 2023. NPLs in mortgages continued decreasing in the first quarter of 2023, reaching historically low levels.

Policy mix

BBMs	LTV limit of 85% (70% if the LTV ratio of the borrower's former housing loans is still over 50%, applicable from February 2022), a stressed DSTI limit of 50% (alongside the usual 40% limit), with a 5% interest rate used in the stress test, an overall DSTI limit of 60% for the amount of housing loans that is no higher than 5% of the total value of new housing loans granted by the same credit provider during a calendar year, maturity limit of 30 years.
CBMs	Sectoral SyRB of 2% for RRE loans from July 2022, CCyB of 1% from October 2023.

Policy assessment

The current measures are deemed to be appropriate and sufficient. The authorities should continue monitoring vulnerabilities and consider further increasing capital buffers if vulnerabilities build up.

5.20 Luxembourg

Vulnerabilities

The key vulnerabilities identified in 2021 related to high house price growth, house price overvaluation, high housing lending growth, high indebtedness and signs of a loosening of lending standards. Household indebtedness in Luxembourg remained among the highest in the EU. Factors impacting housing market vulnerabilities included a lack of housing supply, which was exerting upwards pressure on house prices and household debt, and the tax deductibility of interest paid on mortgage loans, which may act as an incentive for households to overborrow.

The housing market in Luxembourg has entered a downwards phase after years of sustained high growth in RRE prices and mortgage credit. House prices increased rapidly after the last ESRB assessment in 2021, with annual growth rates peaking in the first quarter of 2021. After that, they continued to grow at high but declining annual rates until the first quarter of 2023, when they decreased by around 1.5%. Nominal house prices continued to fall in the second quarter (-6.4% in year-on-year terms). Quarterly growth rates had already turned negative in the fourth quarter of 2022 and remained so in the first and second quarters of 2023, pointing to possible further moderation in the future. Annual growth in the number of housing transactions was negative during 2022 and the declines became more significant in the first half of 2023, with numbers down by 44.8% in the second quarter of 2023, compared with the same period of 2022. House prices remain overvalued according to a number of measures, although estimates have declined. Supply constraints continue to support house prices owing to a structural lack of housing supply and low or negative RRE investment growth.

Household loans for house purchase have grown strongly in recent years but have slowed since early 2022. The annual growth rate of mortgage stocks has been decelerating in recent years and reached -0.4% in September 2023. According to the euro area bank lending survey, mortgage demand has declined over recent quarters, mainly on account of lower consumer confidence, rising interest rates and a worsening housing market outlook. Variable-rate loans as a proportion of new loans decreased to 37% in September 2023, down from 58% in September 2022. The proportion of new mortgage volumes with an LTV of more than 90% decreased from 32% in 2020 to 26% in 2021 and 24% in 2022, suggesting the gradual but steady impact of the newly introduced LTV measures. The share of new loans with DTIs of more than eight decreased in the first half of 2023, while the proportion of new loans with DSTIs over 40% increased, due to shortening maturities and rising interest rates. The weighted average LTV, maturity of new loans and DTI of new loans decreased to around 70%, 21 years and 8.4 respectively at the end of June 2023. Other indebtedness ratios, such as DSTIs, show an upwards trend (with the weighted average standing at 45.1% in the first half of 2023), although the overall volume of high-DSTI loans is decreasing, due to the muted lending dynamics.[24]

Household debt as a share of GDP remains high. Government measures related to wage indexation and the tax deductibility of mortgage interest payments are supporting housing demand, thereby contributing to the mismatch between supply and demand, and increasing household debt. At the same time, wage indexation is helping to alleviate the burden of higher inflation on households, even though low-income households might be driven out of the market. Some government subsidies have been put in place to alleviate the effect of higher energy prices. Bridging loans, which are considered risky, have increased slightly as a proportion of new loans, while their share of the stock is 3.9%, according to the Commission de Surveillance du Secteur Financier (Luxembourg financial sector supervisory authority – CSSF). In order to streamline bank practices and to incentivise prudent lending standards, and in line with EU Directive 2014/17/EU[25], the CSSF requires the main RRE lenders to stress interest rates by a minimum of 200 bps above the rate in force, to be applied to the borrower’s residual income when granting new variable or revisable-rate loans. This measure acts as an income-based measure since it essentially limits borrowing capacity and therefore indebtedness, while considering at the same time the absolute income level of the borrower.

The national authorities have made efforts to address the structural sources of RRE vulnerabilities. A set of policies that address the supply-side shortage in the market has either been implemented or proposed. These policies include public investments (funds to support housing development and development of social and affordable rental housing), changes in taxation (land use tax, tax on non-occupancy of houses), and constraints on constructors and developers (e.g. the obligation to designate constructible land for housing and to reserve a share of developed surface area for affordable housing). The national authorities have also reviewed

24 The DTI ratio decreased sharply in the first half of 2023. This decrease can be linked to a limitation on borrowing capacity due to the high interest rate environment, in combination with the stress testing requirement for variable-rate loans recently introduced by the CSSF.

25 **Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property (OJ L 60, 28.2.2014, p. 34-85).**

policies that cause excessive house price growth and housing speculation (e.g. taxation of real estate incomes and the accelerated amortisation rate of investment funds, rent regulations for investment properties). Some of the adopted measures (e.g. a new real estate tax on investment funds, a change of regime for family wealth management companies and a decrease in tax advantages for real estate speculation) also aim to curb the structural factors that provide incentives to take on excessive mortgage debt.

Policy mix

BBMs	LTV limit of up to 100% for first-time buyers and 90% for non-first-time buyers purchasing a primary residence (with a 15% exception up to an LTV of 100%), 80% for all other borrowers, including buy-to-let borrowers. The main banks active on the RRE market have been required to stress 200 bps on top of the applicable level of interest rates when granting new variable or revisable-rate loans*.
CBMs	Average risk-weight floor of 15% for RRE loans of IRB banks, requirement for institutions using the IRB approach to stress test their regulatory capital adequacy (incl. an increase of a minimum of 50% in the probability of default and a loss given default of at least 20% for RRE loans), CCyB of 0.5%.

Note: This measure is constrained by the minimum residual income applied by those banks.

Policy assessment

The current measures are deemed to be partially appropriate and partially sufficient. The authorities should continue monitoring vulnerabilities and implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. Given the high level of indebtedness of the household sector and the continued deterioration of DSTI ratios, the national authorities should consider adding income-related BBMs to their policy mix. These measures could prevent a further deterioration of lending standards and contribute to a more sustainable level of household debt over time. Moreover, if cyclical risks start to pick up, the authorities should consider increasing capital buffers to maintain a high level of resilience in the Luxembourg banking system. In addition, despite the structural measures taken, the authorities are strongly encouraged to continue reviewing the policy framework with the aim of curbing the structural factors that have driven the vulnerabilities identified as a source of systemic risk.

5.21 Malta

Vulnerabilities

The key vulnerabilities identified in 2021 related to high housing credit growth and high household indebtedness. The rebound in mortgage lending in 2021 was due in part to temporary government tax incentives, which were intended to support the recovery of the real estate market after the pandemic.

The housing market in Malta is showing signs of a slowdown. While annual house price growth remained at close to 4.5% in the second quarter of 2023, mortgage loans continued to grow strongly year on year, with a small moderation from the end of 2022 onwards. According to the authorities, the number of promises of sale declined significantly in 2022 compared with 2021, returning to levels observed before the tax incentives that were in place until the end of 2022. As a result, the slight slowdown observed in real estate developments is most likely temporary.

Household indebtedness remains high in Malta, although it is still below the euro area average as a proportion of GDP. Furthermore, household debt is, to a large extent, secured by financial assets. The high proportion of loans with variable rates makes households vulnerable to rising interest rates. However, outstanding loans have continued to report stable interest rates to date, and the most recent data on lending standards are relatively stable.

Policy mix

BBMs	LTV limit of 75-90% according to the category of borrowers, DSTI limit of 40% (with interest rate stress of 1.5 percentage points), maturity limit of 25-40 years.
CBMs	Article 124 CRR measure with 35% risk weight for loans having an LTV at or below 70% (as opposed to the 80% LTV set out in the CRR), with the rest assigned a 100% risk weight, sectoral SyRB of 1% applicable from 30 September 2023, scheduled to be increased to 1.5% as of 31 March 2024, requirement for banks not to exceed an NPL (non-performing loan) ratio threshold of 5% on a continuous basis [otherwise the bank is required to draw up a multi-year strategy for reducing the proportion of NPLs]; in addition, banks are required to have full coverage of non-performing exposures (NPEs) (within a stipulated time frame) for legacy loans originated before 26 April 2019.

Policy assessment

The current measures are deemed to be appropriate and sufficient. The authorities should continue monitoring vulnerabilities and consider further increasing capital buffers if the vulnerabilities build up.

5.22 The Netherlands

Vulnerabilities

The key vulnerabilities identified in 2021 related to signs of house price overvaluation, elevated house price growth, high household indebtedness and loose lending standards. House prices had increased strongly in the previous few years, high household indebtedness continued to present pronounced risks and lending standards had eased further in 2019 and 2020. On the supply side, although there had been a further increase in residential construction and investment, there was still a housing shortage in the big cities, which was identified as a factor in elevated house price growth.

The housing market in the Netherlands is in a downturn. Annual house price growth declined from a peak of around 20% in the first quarter of 2022 to close to zero in the first quarter of 2023, before turning negative (-4.3%) in the second quarter of 2023. In quarterly terms, growth in house prices has been negative since the last quarter of 2022. Housing transactions declined year on year in all four quarters of 2022 and in the first two quarters of 2023, and new loans for house purchase have been declining year on year since mid-2022. De Nederlandsche Bank (DNB) expects housing prices to decline further, partially correcting the existing overvaluation. Indicators of overvaluation have also decreased significantly, although they remain positive.

Household debt as a share of GDP remained very high, despite a decline since the first quarter of 2021. According to DNB calculations, however, even in the case of a 20% decline in house prices, only 8% of households would undergo a negative equity shock with an LTV ratio above 100%. Interest-only mortgages are potentially a concern, as those loans are more sensitive to interest rate risks, in particular for first-time buyers and very recent buyers. The interest rate fixation period has increased over the last 12 months, to around 20%. At the same time, the interest rate fixation period for loans with fixed interest rates has increased substantially in most recent quarters, reducing the pressure on the most vulnerable groups. Similarly, households have lengthened the average maturity of their mortgages to an average of 17 years. Currently, around 75% of total mortgages have a remaining fixed interest period of more than five years. Low unemployment, income growth, the recent decline in energy prices and purchasing power measures by the Government have increased the resilience of households.

Available data on lending standards suggest that macroprudential measures have had some effect in gradually reducing high LTV lending in recent years. While government measures have increased demand for housing by allowing interest to be deducted from taxes, measures to fix rents have made investment in RRE less profitable, thereby reducing supply.

The national authorities have implemented numerous demand and supply-side measures and addressed the structural sources of RRE vulnerabilities. Households are required to gradually repay their mortgage loans within 30 years to qualify for the mortgage interest deduction. Moreover, several reforms have been implemented to remove features of the Dutch tax system that favour certain types of residential property ownership. To stimulate the supply side of the housing market, the Government is working on more centralised planning of the supply of new housing, the removal of bottlenecks in the planning process for housing construction and providing public investment to unlock housing projects. In addition, during the remedial dialogue process, the Dutch representatives announced that the Government had also abolished the social housing tax. These policies should lead to increased investment in affordable housing for low-income households. Overall, these supply-side measures are expected to accelerate the whole house-building process.

Policy mix

BBMs	LTV limit of 100%, DSTI limit of 10.5-35% in a matrix of income and interest rate levels, maturity limit of 30 years for tax deductibility of mortgage interest payments.
CBMs	CCyB of 2% from the end of May 2024. Minimum average risk weight (Article 458 CRR) for RRE exposures for the IRB banks.

Policy assessment

The current macroprudential policy mix is assessed as being appropriate and partially sufficient. The authorities should continue monitoring vulnerabilities and implementing the previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, the authorities should tighten LTV limits, adjust the methodology for setting DSTI limits with financial stability objectives in mind, and continue with policy actions beyond the macroprudential remit. The authorities should increase capital buffers if vulnerabilities build up further.

5.23 Norway

Risk analysis

The key vulnerabilities identified in 2021 related to house price overvaluation, elevated house price growth and high mortgage lending growth. There had been growing concerns over house price overvaluation and house price growth. Factors contributing to these vulnerabilities were low residential mortgage rates and a temporary relaxation of the residential mortgage regulation, which was one of the measures implemented to facilitate the granting of credit during the pandemic. The proportion of variable interest loans was high (92% in January 2021) and had been increasing slightly.

The housing market in Norway is showing signs of a slowdown. Annual house price growth reached a peak of more than 10% in the second quarter of 2021 but remained at high levels until the last quarter of 2022. However, low and sometimes negative quarter-on-quarter growth resulted in a decline in annual house price growth to around 1.9% in the second quarter of 2023. Housing transactions fell in all four quarters of 2022 compared with one year earlier. However, at the beginning of 2023, numbers of unsold homes fell back, but have since started to increase. House prices are expected to edge down in the second half of 2023 and then rebound through 2024, according to Norges Bank.

Annual household credit growth continued to slow somewhat, but remained positive. Higher interest rates are expected to lead to a further moderation in credit growth. Household debt as a share of GDP began to decline in mid-2021. Following solid growth throughout 2022, mainland GDP growth has slowed in 2023. However, lower expected real wage growth and higher interest expenses are likely to lead to lower real disposable income and household consumption. Debt-to-income ratios have nevertheless remained high, particularly for younger age groups, which are often first-time home buyers.[26]

A simple stress test by Norges Bank suggests that most households should be able to manage an interest rate increase of 7 percentage points[27]. Strong GDP growth, combined with low unemployment, should help the resilience of the household sector. Meanwhile, higher DSTI ratios as a result of higher interest rates may lead to lower consumption by households to service their debt, thereby depressing the economic outlook.

Policy mix

BBMs	LTV limit of 85%, DTI limit of five times gross annual income, amortisation requirement of 2.5% per annum or the equivalent on an annuity loan with a 30-year repayment period for loans with an LTV above 60% (exemption 8% in Oslo and 10% in the rest of the country), stress test on lending standards.
CBMs	CCyB of 2.5% from the end of March 2023, SyRB of 4.5% (for all credit institutions authorised in Norway and five subsidiaries in other EEA member countries), Article 458 CRR measure setting minimum risk-weight floors of 20% for IRB banks on Norwegian RRE exposures, Article 164 CRR measure increasing the minimum loss-given-default value from 10% to 20% for all IRB banks.

Policy assessment

The current policy mix is assessed as being appropriate and sufficient. The authorities should continue monitoring vulnerabilities and take appropriate policy action if needed.

5.24 Poland

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated house price growth and legal uncertainties related to the stock of foreign currency loans. Real estate prices have accelerated in recent years, due to a decrease in the rate of growth of building permits granted and increasing demand for housing. There were, however, no signs of house price overvaluation. Uncertainty remained over litigation actions brought by borrowers over the stock of foreign currency loans denominated in Swiss francs that banks had stopped providing in 2011.

The housing market in Poland is in continuing expansion. Annual growth in housing prices sharply decelerated after mid-2022, bringing down the measures of house price valuation. The quarter-on-quarter increase in the second quarter of 2023 has, however, pushed the annual growth in housing prices up again, to around 7% year on year. Annual growth in the stock of loans to households for house purchase declined between September 2022 and September 2023.

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[26] Norges Bank, **Financial Stability Report, H1 2023**.

[27] Norges Bank, **Financial Stability Report 2022**, page 22.

Moreover, new loans started declining considerably from February 2022 in year-on-year terms, mainly on account of rising borrowing costs and stricter supervisory interest rate buffer requirements. In the third quarter of 2023, new volumes again started increasing.

Household indebtedness has decreased in the last few years, but new loans have been provided with a relatively large debt service. Households have been exposed to interest rate risks as the proportion of loans with variable rates is relatively high, on the back of the significant increases in monetary policy rates. As a result, the proportion of loans with risky LSTI ratios increased between 2021 and 2022, following the interest rate increase, and is high compared with other European countries. While the proportion of high-DSTI (above 50%) loans increased, their value dropped. In fact, the value (in Polish zloty (PLN)) of high-DSTI lending in 2022 was actually lower than in 2021. This reduces the potential systemic impact of high-DSTI loans.

The legacy portfolio of foreign currency (FX) mortgages poses risks to financial stability, as the previous proposal for voluntary settlements between banks and their customers has not led to substantial portfolio restructuring. By mid-2022, the proportion of FX mortgage contracts (in particular CHF-denominated loans) in litigation increased to almost 30%. In June 2023, the European Court of Justice decided that banks cannot charge fees for loan contracts that have been invalidated due to abusive clauses, which can further disincentivise borrowers from voluntary agreements. Going forward, the need to set aside higher loan loss provisions may put further pressure on banks' profitability, which has already been further reduced recently by mortgage credit holidays.

Policy mix

BBMs	LTV limit (80%, 90% if the portion above 80% is insured or collateralised with funds in bank accounts, government or Narodowy Bank Polski securities or pension accounts), DSTI limit (soft recommendation; 40% for borrowers whose salary is below average, 50% for others), loan maturity limit (25 years; banks may issue loans with a maturity of up to 35 years but are required to assess borrowers' ability to repay these loans as if they were loans with a maturity of 25 years), stress test (50% depreciation if a household obtained the loan in a currency other than that of the household income, interest rates of at least 250 basis points above current market values, increased in times of high volatility of interest rates when calculating borrowers' creditworthiness); the recommended minimum stress to interest rates was increased in March 2022 (from 250 to 500 basis points), whereas as of February 2023 it returned to 250 basis points. The revised recommendation of 19 June 2023 introduced a new formula for calculating the interest rate buffer and banks are expected to apply these provisions by 1 July 2024.
CBMs	Article 124 CRR measure setting risk weights of 50-100% for the unsecured portion of foreign currency loans for RRE exposure, depending on the proportion of loan loss provisions and write-offs in gross exposures. This measure was put in place in March 2022, replacing previous risk weights of 150% on all RRE exposures*.

Note: The reason for the change was to address a temporary period between the creation of provisions and the conclusion of agreements regarding the conversion of FX currency loans.

Policy assessment

The current policy mix is assessed as being appropriate and sufficient. The authorities should continue to monitor vulnerabilities, consider introducing explicit DSTI limits and increase capital buffers if vulnerabilities build up. Apart from that, the authorities should ensure that enough capital is available to cover potential losses due to the legacy portfolio of FX mortgages by, for example, introducing a sectoral SyRB or using Pillar II measures addressing individual institutions.

5.25 Portugal

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated house price growth, high household indebtedness and low interest rate spreads for new housing loans. House prices in Portugal had grown steadily and significantly in the previous years. Although mortgage credit was not the main driver of house price increases, it had been rising, together with household indebtedness, despite the introduction of BBMs in 2018.

The housing market in Portugal is in continued expansion. While year-on-year nominal house price growth started to moderate in the fourth quarter of 2022, it remained robust at 8.7% in the second quarter of 2023. Similarly, quarterly house price growth decreased from around 3% in 2020-22 to around 1% in the last quarter of 2022 and in the first quarter of 2023, before returning to its previous levels in the second quarter of 2023. Housing transactions grew in year-on-year terms in the first half of 2022, but declined in the second half of 2022 and the first quarter of 2023, pointing to a possible further moderation in house prices. New loans have decreased sharply in recent months. House prices still appear overvalued. However, the model uncertainty is significant.

Annual growth in the stock of mortgage loans has been slowing since the end of 2022, leading to slightly negative annual growth rates in the third quarter of 2023. According to the euro area bank lending survey, loan demand has been lower in recent quarters owing to higher interest rates, lower consumer confidence and the worsening housing market outlook. Regarding lending standards, while the proportion of loans at risky LTV ratios is very small, the proportion of loans at risky LTI ratios is high, although it decreased somewhat in the first half of 2023. However, given the longer maturities of new housing loans (on average, close to 30 years) and the macroprudential recommendation, the proportion of loans with high-DSTI ratios has been limited. Reflecting the increase in nominal GDP and the subdued trend in debt, household debt as a share of disposable income remained below the euro area average in late 2022 (91% in Portugal, compared with 97% in the euro area). In the first half of 2023, it continued to decrease, by around 3 percentage points, to 88%.

Policy mix

BBMs	LTV limit of 80% (90% for primary residence), DSTI limit of 50% after applying stress to interest rates, average maturity of all new credit agreements for house purchase, credit secured by a mortgage or equivalent granted by each institution not to exceed 30 years (since the end of 2022).
CBMs	SyRB of 4% on all retail exposures to natural persons that are secured by residential property.

Policy assessment

The current policy mix is assessed as being appropriate and sufficient. BBMs have been contributing positively to maintaining sound lending standards in Portugal in the past few years. In October 2023, the Banco de Portugal published its decision to lower the shock to interest rates used to calculate the DSTI ratio.[28] Given the accumulated vulnerabilities in recent years, as well as the high level of banking sector exposures to the real estate sector, a sectoral SyRB is an appropriate policy tool to complement the current BBMs in Portugal. As of October 2024, the Banco de Portugal has implemented a sectoral SyRB. In view of this intention, the policy stance is assessed as being appropriate and sufficient to mitigate identified vulnerabilities related to RRE. Nevertheless, the authorities could consider increasing capital buffers if vulnerabilities pick up.

5.26 Romania

Vulnerabilities

In the previous ESRB analysis in 2021, Romania was identified as having a low level of vulnerabilities. Particularly high net lending growth was nonetheless recorded. Furthermore, a deterioration in asset quality was expected as prudential and fiscal measures were being phased out, due to the high proportion of mortgage loans under moratoria.

The housing market in Romania is in a slowdown. Annual nominal house price growth was robust (at around 7%) throughout 2022, but has been declining since its peak in the second quarter of 2022, reaching 0.1% a year later. However, quarterly nominal house price growth has been negative in three of the last four quarters, while annual growth in new loans has been negative since mid-2022, mainly on account of higher interest rates, combined with a relatively high proportion of loans at variable rates. Growth in the stock of housing loans was strong, but started to decelerate towards the end of 2022 and continued to moderate into 2023. Activity in the housing markets is concentrated in the large cities, where prices have increased most. Overall, house prices in Romania are estimated to be undervalued.

Lending standards are relatively loose in Romania, despite BBMs. The proportion of loans at risky LTI and DSTI ratios is relatively high, while the proportion of loans at risky LTV ratios is low.

28 The interest rate shock included in the calculation of the DSTI ratio was reduced to 150 basis points for contracts with a maturity of more than ten years, to 100 basis points for contracts with a maturity of between five and ten years and to 50 basis points for contracts with a maturity of less than five years.

However, around 50% of housing loans denominated in local currency were granted after 1 January 2019 when a cap on the level of indebtedness was introduced, reducing the proportion of high-debt borrowers. One characteristic of the Romanian economy is the impact of the high level of migration of residents to specific areas.

Policy mix

BBMs	LTV limit differentiated based on the type of borrowers (lowered in 2022 for loans to finance property for other than own use), DSTI limit of 40% (20% for unhedged FX exposures), 15% exemption from the limits.
CBMs	SyRB of 0-2%, CCyB of 0.5%, to be increased to 1% from 23 October 2023.

Policy assessment

The current policy mix is assessed as being appropriate and sufficient. The authorities should continue monitoring vulnerabilities. If vulnerabilities build up, they should consider adjusting the BBMs to address loans with high LTI/DSTI ratios or to increase capital buffers if growth in mortgage/broad-based lending picks up again.

5.27 Slovakia

Vulnerabilities

The key vulnerabilities identified in 2021 related to signs of house price overvaluation, elevated house price growth, increasing household indebtedness and high (mortgage) credit growth. Real house price growth was the second-highest in the EU, with price dynamics accelerating during the pandemic. Mortgage credit growth was also among the highest in the EU, driven by one of the lowest costs of borrowing. Consequently, relatively high growth in household indebtedness had been observed in previous years.

The housing market in Slovakia is levelling off. Nominal house prices grew by more than 20% until the third quarter of 2022 in year-on-year terms, but slowed in the fourth quarter and in the first quarter of 2023, before decreasing by 1.9% in the second quarter of 2023 (some sources indicate and even greater decrease). Negative quarter-on-quarter growth has been recorded since the fourth quarter of 2022.

Annual growth in the stock of nominal household loans for house purchase remained high, but began slowing from mid-2022 until September 2023. New loans started declining year on year in mid-2022. While the proportion of loans with a risky LTV ratio was very low, the proportion of loans with a risky LTI ratio was high compared with other European countries, until it decreased sharply in the first half of 2023. The proportion of loans with a risky LSTI ratio was moderate, but increased in the first half of 2023.

Policy mix

BBMs	LTV limit of 80% of value of collateral (20% range of exceptions up to an LTV of 90%), DTI limit of eight times yearly net income (5% range of exceptions; Since 2022, tighter limits have been applied for borrowers over 40 years old if maturity exceeds the retirement age), DSTI of 60% of borrowers' disposable income (5% range of exceptions up to a DSTI of 70%; in the case of a "green consumer loan", the maximum instalment may be increased by €50), stress test for 2 percentage point increase in interest rates (up to a rate of 6%), requirement to amortise at least by annuity repayment, maturity limit of 30 years for mortgage loans (10% range of exceptions) and 8 years for other consumer loans (for "green consumer loans", the maturity is extended from 8 to 10 years).
CBMs	CCyB of 1.5% as of August 2023.

Policy assessment

The current policy mix is assessed as being appropriate and sufficient. The authorities should continue monitoring vulnerabilities and increase capital buffers if vulnerabilities build up. The authorities could also adjust BBMs (DTI or DSTI) to address some potential pockets of vulnerabilities related to high DTI and DSTI values.

5.28 Slovenia

Vulnerabilities

The key vulnerabilities identified in 2021 related to elevated house price growth, high housing lending growth and improving but still relatively loose lending standards. While house price growth had been decelerating slightly since the end of 2019, lending growth was continuously increasing on the back of the general level of interest rates, a positive housing market outlook, improved consumer confidence and, to a lesser extent, deferred payment related to the use of moratoria.

The housing market in Slovenia is in continued expansion, with the first signs of a slowdown. Annual nominal house price growth remained high, but began to moderate in the fourth quarter of 2022, reaching 7.4% in the second quarter of 2023. Housing transactions started declining year on year from the second quarter of 2022 onwards. Growth in the stock of household loans for house purchase peaked in mid-2022 and has decreased steadily since then, reaching 1% in September 2023. New housing loans started declining year on year in September 2022. According to the euro area bank lending survey, the decline was mainly due to higher interest rates and, albeit to a lesser extent, the outlook for the housing market.

Lending standards suggest potential pockets of vulnerabilities, despite BBMs. While the proportion of loans at risky LTV ratios is rather small, the proportion of loans with risky DSTI ratios is high and also increased in the first half of 2023. The debt servicing capacity of borrowers has been affected by rising consumer prices and rising interest rates. However, the vulnerabilities related to debt servicing capacity have been mitigated by the high proportion of loans with relatively long fixation periods.

Policy mix

BBMs	LTV limit of 70%, DSTI limit of 50% for net monthly income of no more than twice the minimum gross wage, and 67% for the portion of the net monthly income that exceeds twice the minimum gross wage (with a 10% exception), maturity limits for consumer loans of seven years (with a 15% exception).
CBMs	Sectoral SyRB of 1% for RRE loans and 0.5% for all other loans to natural persons, CCyB of 0.5% from the end of December 2023.

Policy assessment

The current policy mix is assessed as being appropriate and sufficient. The authorities should continue monitoring vulnerabilities and consider increasing capital buffers and/or tighten BBMs if vulnerabilities build up.

5.29 Spain

Vulnerabilities

In the previous ESRB analysis in 2021, Spain was identified as having a low level of vulnerabilities. Spain was one of the few EU countries to have recorded negative rates of lending growth. As prudential and fiscal measures were being phased out, however, a deterioration in asset quality was expected to take place due to the high proportion of mortgage loans under moratoria. This risk was further enhanced by the negative impact of the COVID-19 pandemic on household real disposable income growth, which was the strongest in the EU.

The housing market in Spain is showing signs of a slowdown. After a period of accelerating growth following the pandemic, nominal house price growth in Spain has recently moderated to close to the EU average. House prices grew by 3.7% year on year in the second quarter of 2023, from 7.6% in the third quarter of 2022. House prices are currently estimated to be moderately overvalued in Spain. For example, the ratio of house prices to household income was relatively high, having remained on an upward trend since 2014. Moreover, housing transactions have been declining since the fourth quarter of 2022, after a slowdown that began in 2022. Slowing housing market activity stems from lower disposable household income due to high inflation, increased uncertainty and the gradual tightening of mortgage lending conditions. These effects are more prevalent for lower-income indebted households. However, given that Spain has the highest unemployment rate in the EU (12.7% versus 5.9% of the EU average), the number of households vulnerable to potential income shocks is larger.

Moreover, housing credit dynamics have slowed down. The housing loan stock started declining at the end of 2022 on both annual and quarterly terms, having previously been on a measured trend. Similarly, the annual growth of new mortgage loans started to decline in 2023, after slowing in 2022. Instead, in quarterly terms, activity picked up in the first few months of 2023. However, the flow of new mortgages in Spain, measured as a share of GDP, has remained below the euro area average since the sovereign debt crisis, as households have, in aggregate, deleveraged. Throughout 2022 and the first half of 2023, lending standards for newly approved housing loans remained broadly stable. However, the proportion of high LTI/DTI households remained large compared with other EEA countries.

The cost of bank loans to households is expected to increase further as existing floating-rate mortgages come up for review. Variable and mixed-rate mortgages accounted for slightly more than 70% of the total stock in December 2022. However, in recent years, fixed-rate mortgages have been more prevalent, which helps to limit the scale of transmission of higher rates into mortgages. In fact, variable-rate mortgages accounted for 16% of new loans in September 2023. Overall, higher interest rates are expected to increase the proportion of indebted households with a high debt burden, particularly in some of the lower income percentiles.

To mitigate the impact of lower disposable income and higher interest rates, the Spanish government has introduced the possibility of mortgage debt burden relief measures for vulnerable households. The measure, which is part of a code of conduct agreed with the banking sector, is applicable for households with relatively low income, for which the DSTI ratio increases by at least 20% in the four years before application, exceeding 30%. It consists of an interest-only period of up to one year (with a limited interest rate during that period), extension of the maturity to up to 40 years, and the option of converting a variable interest rate into a fixed interest rate.

Policy mix

No macroprudential measures in place.

Policy assessment

The current measures are deemed to be appropriate and sufficient to address the underlying risks. Nevertheless, the authorities should continue monitoring vulnerabilities, particularly in the household sector, given that not all the effects of higher rates have yet passed through and given the prevailing high level of unemployment. Going forward, the authorities should consider introducing capital buffers (e.g. sectoral SyRB) to ensure banking sector resilience to accumulated vulnerabilities in the housing market, as well as introducing BBMs to ensure sound lending standards.

5.30 Sweden

Vulnerabilities

The key vulnerabilities identified in 2021 related to high and rising household indebtedness, house price overvaluation, high house price growth, high mortgage lending growth and a high level of non-amortising mortgages in the stock of existing mortgages, as well as interconnectedness with the Nordic banking system. Household indebtedness remained at one of the highest levels in Europe, and residential property was estimated to be significantly overvalued. Strong growth in mortgage lending supported rising levels of household indebtedness. Household vulnerabilities were further amplified by a large proportion of loans with variable interest rates. Rising RRE prices stemming from population and economic growth, supply shortages, tax incentives for home ownership and a low interest rate environment over an extended period have contributed to overvalued house prices.

The housing market in Sweden is levelling off. According to the Eurostat House Price Index, annual growth in house prices peaked in the third quarter of 2021 and then progressively declined, turning negative in the fourth quarter of 2022. The year-on-year decline in the first quarter of 2023 was around 6.9% in nominal terms, which was followed by another decline in the second quarter of 6.8%.[29] Measures of overvaluation, which were high in 2021, dropped sharply and are now in neutral territory. Growth in mortgage loans slowed, but remained positive, while new loans began to decline year on year in mid-2022.

Household indebtedness remains high, and among the highest in the EU. Combined with a high proportion of loans at variable interest rates, this makes households particularly vulnerable to interest rate increases. While the authorities assess the risk of credit losses stemming from mortgages as low, households are being affected by higher interest rates combined with higher energy and living costs. This could cause the economic outlook to deteriorate due to decreasing household consumption.

The national authorities made structural changes between 2016 and 2022 that are expected to exert downwards pressure on rising housing prices. They include the digitalisation of development plans to promote effective and quality-assured processes, the monitoring of housing shortages at the municipality level, the review of national interest claims for the conservation of natural and cultural environments, in order to release more land for planning and building, legislative amendments for municipalities to produce a larger number of detailed development plans and the review of social housing policy and legislation to facilitate the mass construction of residential buildings. These measures have helped to increase supply of land for building purposes and housing stock, while facilitating new construction activity relating to bureaucracy and building permits. Structural changes also include tax measures, such as the deferred taxation of capital gains for individuals changing their homes and the elimination of interest payments on deferred capital gains. The tax measures introduced are expected to lessen previous distortions, which provided tax incentives to take out mortgages and increased the demand for housing loans.

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[29] According to alternative data from Valueguard (the HOX index), annual growth in house prices reached a peak of 18.6% in April 2021, turning negative in June 2022. The decline in house prices in the first quarter of 2023 was 13.2%, compared with 10.6% in the second quarter of the year and 3.9% in the third quarter, according to the same source.

Policy mix

BBMs	LTV limit of 85%, requirement for new borrowers to amortise mortgages in excess of 4.5 times their gross income by at least 1% of the debt in addition to the existing amortisation requirement; new borrowers with mortgages with LTVs of between 50% and 70% are required to amortise at least 1%, while those with mortgages with LTVs of more than 70% are required to amortise at least 2%.
CBMs	Article 458 CRR measure setting a risk-weight floor of 25% on housing loans for IRB banks, CCyB of 2% from the end of June 2023, SyRB of 3% applicable to three institutions.

Policy assessment

The current policy mix is assessed as being appropriate and partly sufficient. The authorities should continue monitoring vulnerabilities and implementing previous ESRB recommendations, taking into account the position in the economic and financial cycles. In particular, they should consider introducing BBMs that would limit borrowing by overindebted households (e.g. a DTI limit), improve the timely availability of data on lending standards and continue with policy actions beyond the macroprudential remit to address structural vulnerabilities related to the housing market. These may include decreasing the tax deductibility of interest costs, raising property taxes and reforms of the rental market and construction regulations to improve the housing supply. If vulnerabilities build up, they should increase capital buffers.

Annex

Table 4

Summary of the analysis of vulnerabilities conducted by the ESRB in 2021

	Results of the ESRB risk assessment in 2021									
	Key vulnerabilities							Stock risks	Flow risks	Overall risk assessment
	House price growth	Mortgage credit growth	Lending standards loose/ loosening	Household credit growth	Overvaluation of house prices	Indebtedness of households	Other vulnerabilities			
AT	x	x	x		x			medium	high	medium
BE	x	x	x	x	signs	x		medium	high	medium
BG	x	x			signs			low	high	medium
HR	x	x	x		signs			low	high	medium
CZ	x	x	x					medium	high	medium
DK	x				signs	x	deferred amortisation loans (existing and new)	high	high	high
EE	x	x			signs	x		medium	high	medium
FI			x	x		x	lending through housing company loans	medium	medium	medium
FR			x	x	signs	x		medium	medium	medium
DE	x		x		x			medium	high	medium
HU	x	x		x	(capital city)			low	high	medium
IS	x	x	x		signs	x	CPI indexed and variable rate loans (existing and new)	medium	medium	medium
IE						x		medium	medium	medium

Results of the ESRB risk assessment in 2021

	Key vulnerabilities									
	House price growth	Mortgage credit growth	Lending standards loose/ loosening	Household credit growth	Overvaluation of house prices	Indebtedness of households	Other vulnerabilities	Stock risks	Flow risks	Overall risk assessment
LI						x		medium	medium	medium
LT	x	x		x				low	high	medium
LU	x	x	x		x	x		high	high	high
MT		x				x		medium	high	medium
NL	x		x		x	x		high	high	high
NO	x	x			x			high	medium	high
PL	x						FX loans (existing)	medium	medium	medium
PT	x		x			x		medium	high	medium
SK	x	x		x	signs			medium	high	medium
SI	x	x	x					low	high	medium
SE	x	x		x	x	x	non-amortising loans (existing)	high	high	high
CY	Country not included in the in-depth risk assessment in 2021 (risks considered not material)									
GR	Country not included in the in-depth risk assessment in 2021 (risks considered not material)									
IT	Country not included in the in-depth risk assessment in 2021 (risks considered not material)									
LV	Country not included in the in-depth risk assessment in 2021 (risks considered not material)									
RO	Country not included in the in-depth risk assessment in 2021 (risks considered not material)									
ES	Country not included in the in-depth risk assessment in 2021 (risks considered not material)									

Source: ESRB.

Table 4

Summary of the macroprudential policy actions before and after the ESRB assessments in 2019 and 2021

Legend: Yellow – Introduction, Green – Recalibration, Red - Extension, Blue – Relaxation, Grey – Tightening, Light Grey – Abolished.

	Before ESRB assessment in September 2019												
	BBM								CBM				
	Amort. req.	DSTI	DTI	LTI	LTV	Maturity limit	Speed limit	Stress test	CCyB	SyRB	SSyRB	Art. 458 (RRE)	Other RW
AT		R			R	R							
BE													
BG													
CY													
CZ	R	R	R		R	R		R					
DE													
DK			R	R	R								
EE													
ES													
FI					LB			R					
FR													
GR													
HR													
HU													
IE													
IS													

	Before ESRB assessment in September 2019												
	BBM								CBM				
	Amort. req.	DSTI	DTI	LTI	LTV	Maturity limit	Speed limit	Stress test	CCyB	SyRB	SSyRB	Art. 458 (RRE)	Other RW
IT													
LI													
LT													
LU													
LV													
MT													
NL		LB											
NO	LB												
PL		R			R	R							
PT													
RO													
SE	LB												
SI													
SK													

	After ESRB assessment in September 2019, before January 2022											
	BBM							CBM				
	Amort. req.	DSTI	DTI	LTV	Maturity limit	Speed limit	Stress test	CCyB	SyRB	SSyRB	Art. 458 (RRE)	Other RW
AT												
BE		R	R	R								
BG												
CY												
CZ		LB	LB	LB								
DE												
DK												
EE												
ES												
FI				LB								
FR												
GR												
HR												
HU												
IE												
IS												
IT												
LI												
LT												

	After ESRB assessment in September 2019, before January 2022											
	BBM							CBM				
	Amort. req.	DSTI	DTI	LTV	Maturity limit	Speed limit	Stress test	CCyB	SyRB	SSyRB	Art. 458 (RRE)	Other RW
LU												
LV												
MT												
NL												
NO												
PL												
PT												
RO												
SE												
SI												
SK												

Source: ESRB.
Notes: A macroprudential policy action is recorded in the table at the time of the announcement by the national authorities. "LB" stands for legally binding, "R" for recommendation. This information is included only for countries with recommendations, or in case of changes from recommendations to legally binding measures.

Table 5
Summary of the policy assessment and suggestions made by the ESRB in 2021

Country	Results of the ESRB policy assessment in 2021		
	Policy assessment		
	Appropriateness	**Sufficiency**	**Policy recommendations/suggestions**
Austria	Partially appropriate	Partially sufficient	Replace the recommendations with legally binding BBMs to ensure greater effectiveness, supplement with capital-based measures if necessary.
Belgium	Appropriate	Sufficient	Tighten the LTV limit if vulnerabilities continue to increase, rebuild capital buffers once economic recovery is on solid ground, replace the Article 458 CRR measure with a sectoral SyRB.
Bulgaria	Partially appropriate	Partially sufficient	Introduce BBMs to prevent spiral between house prices and credit.
Croatia	Partially appropriate	Partially sufficient	Introduce BBMs to prevent spiral between house prices and credit.
The Czech Republic	Appropriate	Sufficient	Continue with careful monitoring of lending standards, consider sectoral SyRB if vulnerabilities keep increasing.
Denmark	Partially appropriate	Partially sufficient	Introduce BBMs to address risks related to non-amortising loans and loans with high LTV and DTI values, design existing BBMs with financial stability objectives in mind, increase capital buffers if the economic recovery continues, consider risk-weight floor for IRB banks, continue with policy actions beyond macroprudential remit
Estonia	Appropriate	Sufficient	Tighten BBMs if accumulation of risky loans continues, increase capital buffers if credit growth persists.
Finland	Partially appropriate	Partially sufficient	Supplement the legal framework for BBMs with income-related measures, activate legally binding income-related measures once available, consider a recommendation in the meantime.
France	Appropriate	Sufficient	Rebuild capital buffers once economic recovery is on solid ground, consider increasing IRB risk weights.

Country	Results of the ESRB policy assessment in 2021		
	Policy assessment		
	Appropriateness	Sufficiency	Policy recommendations/suggestions
Germany	Partially appropriate	Partially sufficient	Activate legally binding LTV limits, supplement it with capital-based measures, complete the legal framework for BBMs (income-related instruments), monitor risks, introduce income-related BBMs subject to that monitoring.
Hungary	Partially appropriate	Partially sufficient	Address sources of vulnerabilities beyond macroprudential remit, potentially also introduce capital-based measures.
Iceland	Appropriate	Sufficient	Monitor risks related to variable-rate loans.
Ireland	Appropriate	Sufficient	Tighten BBMs if accumulation of risky loans continues, increase capital buffers if cyclical risks pick up.
Liechtenstein	Partially appropriate	Partially sufficient	Introduce income-related BBMs, complete legal framework with these instruments.
Lithuania	Appropriate	Sufficient	Increase capital buffers if credit growth persists.
Luxembourg	Partially appropriate	Partially sufficient	Consider introducing income-related BBMs, increase capital buffers once economic recovery is on solid ground.
Malta	Appropriate	Sufficient	Monitor carefully NPLs in construction and household loans, introduce capital-based measures if needed.
The Netherlands	Appropriate	Partially sufficient	Tighten LTV limits, adjust methodology for setting DSTI limit with financial stability objectives in mind, continue with policy actions beyond macroprudential remit.
Norway	Appropriate	Sufficient	Monitor lending standards, tighten the DTI limit if accumulation of risky loans continues, rebuild capital buffers once economic recovery is on solid ground, incl. considering sectoral SyRB, continue with policy actions beyond macroprudential remit.
Poland	Appropriate	Sufficient	Consider introducing explicit DSTI limit if vulnerabilities keep increasing, or sectoral SyRB.

Country	Results of the ESRB policy assessment in 2021		
	Policy assessment		
	Appropriateness	Sufficiency	Policy recommendations/suggestions
Portugal	Appropriate	Sufficient	Consider introducing sectoral SyRB or increasing IRB risk weights.
Slovakia	Appropriate	Partially sufficient	Adjust the current BBMs to avoid circumvention, increase IRB risk weights for RRE exposures, increase CCyB/introduce sectoral SyRB, policy measures beyond macroprudential remit.
Slovenia	Appropriate	Sufficient	Introduce legally binding LTV limits if the soft limits are not complied with, consider introducing sectoral SyRB if credit growth accelerates.
Sweden	Appropriate	Partially sufficient	Consider introducing BBMs that would limit borrowing of overindebted households (e.g. DTI limit), improve the timely availability of data on lending standards, continue with policy actions beyond macroprudential remit.
Cyprus	Country not included in the in-depth policy assessment in 2021 (risks considered not material)		
Greece	Country not included in the in-depth policy assessment in 2021 (risks considered not material)		
Italy	Country not included in the in-depth policy assessment in 2021 (risks considered not material)		
Latvia	Country not included in the in-depth policy assessment in 2021 (risks considered not material)		
Romania	Country not included in the in-depth policy assessment in 2021 (risks considered not material)		
Spain	Country not included in the in-depth policy assessment in 2021 (risks considered not material)		

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For specific terminology please refer to the **ESRB glossary** (available in English only).

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