Compliance report

February 2022

Country-specific Recommendations of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Belgium (ESRB/2019/4), Denmark (ESRB/2019/5), Luxembourg (ESRB/2019/6), the Netherlands (ESRB/2019/7), Finland (ESRB/2019/8) and Sweden (ESRB/2019/9), respectively

ESRB
European Systemic Risk Board
European System of Financial Supervision

Contents

Introduction and summary of findings

This report provides the second assessment[1] of the implementation of the European Systemic Risk Board's country-specific Recommendations on medium-term vulnerabilities in the residential real estate (RRE) sector in:

1. **Belgium (ESRB/2019/4)[2] – with respect to recommendation A;**
2. **Denmark (ESRB/2019/5)[3] – with respect to recommendations A and B;**
3. **Luxembourg (ESRB/2019/6)[4] – with respect to recommendations A and B;**
4. **the Netherlands (ESRB/2019/7)[5] – with respect to recommendations A, B and C;**
5. **Finland (ESRB/2019/8)[6] – with respect to recommendations A and B;**
6. **Sweden (ESRB/2019/9)[7] – with respect to recommendation B;**

(the "Recommendations") by their addressees.

All the Recommendations concern medium-term vulnerabilities in the RRE sector. For ease of comparability and to ensure consistency in the assessment of compliance a single combined compliance report has been produced, instead of a separate compliance report for each recommendation.

Recommendations issued by the ESRB are not legally binding, but are subject to an "act or explain" regime in accordance with Article 17 of the ESRB Regulation.[8] This means that the addressees of those Recommendations are under an obligation to communicate to the European Parliament, the Council, the Commission and the ESRB the actions they have taken to comply with those Recommendations or to provide adequate justification for inaction.

The report assesses the addressees' compliance or explanation for non-action with the Recommendations based on the addressees' submissions to the ESRB Secretariat using a

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1 The report covers the assessment of the follow-up reports that were due by 31 March 2021 and subsequently by 31 October 2021. The first report [INSERT LINK ONCE AVAILABLE] covered the assessment of the first follow-up reports that were due by 31 October 2020. Subsequent follow-up reports will be assessed, where applicable, in 2023.

2 Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Belgium (ESRB/2019/4) (OJ C 366, 30.10.2019, p. 1).

3 Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Denmark (ESRB/2019/5) (OJ C 366, 30.10.2019, p. 7).

4 Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Luxembourg (ESRB/2019/6) (OJ C 366, 30.10.2019, p. 14).

5 Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in the Netherlands (ESRB/2019/7) (OJ C 366, 30.10.2019, p. 22).

6 Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Finland (ESRB/2019/8) (OJ C 366, 30.10.2019, p. 29).

7 Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Sweden (ESRB/2019/9) (OJ C 366, 30.10.2019, p. 35).

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

dedicated template. In accordance with Section 2(3) of the respective Recommendations, by 31 March 2021, and subsequently by 31 October 2021, addressees were requested to provide the ESRB with a report explaining the measures taken to comply with the respective Recommendations or to provide adequate justification for inaction. For the purpose of that reporting, reporting templates for the Recommendations were circulated to the addressees, who completed the templates and returned them to the ESRB.

In order to perform the assessment, an Assessment Team was set up under the auspices of the Advisory Technical Committee (ATC)[9] in 2021. The Assessment Team was composed of six assessors and one alternate and supported by ESRB Secretariat staff (its composition is provided in Annex I).

The assessment was conducted by duly taking into account:

- the criteria contained in Section 2(2) of the respective Recommendations;
- the methodology provided in the **Handbook on the assessment of compliance with ESRB recommendations – April 2016** (the "Handbook"), which describes the procedure for the assessment of compliance with ESRB recommendations;
- the implementation standards prepared by the Assessment Team, which specify the grading of each sub-recommendation based on the compliance criteria (the implementation standards are provided in Annex III); and
- the principle of proportionality.

This report reflects the implementation status as at October 2021.[10]

Overall, only one of the six EU Member States was assessed as "fully compliant", while three were assessed as "largely compliant" and two as "partially compliant". The level of compliance must be viewed against the fact that, for a total of 19 sub-recommendations, 14 actions were taken by the addressees. In the remaining five cases, the addressees did not take any action. In two of these cases the inaction was considered "sufficiently explained".

The overall findings of the compliance assessment are summarised in the colour-coded table below.

9 The Assessment Team was created in line with subsections 3.2 and 3.4 of the Handbook.

10 However, information received at a later stage during the discussion of the findings of the Assessment Team with the addressees of the Recommendation was also taken into consideration in the final assessment results and is reflected in the description of the assessment of each addressee.

ADDRESSEE	OVERALL GRADE
BELGIUM	LC
DENMARK	LC
LUXEMBOURG	FC
FINLAND	PC
THE NETHERLANDS	PC
SWEDEN	LC

Note: FC (dark green) stands for "fully compliant", LC (light green) for "largely compliant" and PC (orange) for "partially compliant".

A summary of the grades assigned for the content of respective recommendations/sub-recommendations is presented in the table below (actions are shown in green and inactions in orange).

Policy recommendations	BE	DK	FI	LU	NL	SE
1. Legal framework for borrower-based measures (BBMs)			A(1): MNC A(2): SE	A: FC	A: MNC	
2. Activation/tightening of BBMs	A: LC					
2.1. Pending the establishment/amendment of the legal framework: activation of non-legally binding BBMs			B(1): PC	B(1): SE	B(1): IE	
2.2. After the legal framework is established/amended: activation of legally binding BBMs			B(2): -	B(2): LC		
2.3. Changes in the approach to the calibration of the measures					B(2): IE	
3. Activation/tightening of capital-based measures		A: FC			C: FC	
4.1. Monitoring of vulnerabilities		B(1): FC				B(1): LC
4.2. Activation/tightening of macroprudential measures based on 4.1		B(2): MNC B(3): MNC				B(2): PC B(3): FC

Notes: The table presents the grades assigned to the content of the measures and not the overall grade for each recommendation or sub-recommendation. FC stands for "fully compliant", LC for "largely compliant", PC for "partially compliant", MNC for "materially non-compliant", SE for "sufficiently explained" and IE for "insufficiently explained". "-" indicates that the assessment was not carried out.
**Legend: Action (green); Inaction (orange).*

The overall grades for each recommendation/sub-recommendation are shown in the table below. Overall grades take into account not only the content of each recommendation/sub-recommendation but also proportionality and reporting by the addressees.

Policy recommendations	BE	DK	FI	LU	NL	SE
1. Legal framework for BBMs			A(1) MNC	A: FC	A: PC	
			A(2): FC			
2. Activation/tightening of BBMs	A: LC					
2.1. Pending the establishment/amendment of the legal framework: activation of non-legally binding BBMs			B(1): PC	B(1): FC	B(1): NC	
2.2. After the legal framework is established/amended: activation of legally binding BBMs			B(2): -	B(2): LC		
2.3. Changes in the approach to the calibration of the measures					B(2): NC	
3. Activation/tightening of capital-based measures		A: FC			C: FC	
4.1. Monitoring of vulnerabilities		B(1): FC				B(1): LC
4.2. Activation/tightening of macroprudential measures based on 4.1		B(2): MNC				B(2): PC
		B(3): MNC				B(3): FC

Notes: The table presents the overall grade for each recommendation or sub-recommendation. FC (dark green) stands for “fully compliant”, LC (light green) for “largely compliant”, PC (orange) for “partially compliant”, MNC (red) for “materially non-compliant”, NC (dark red) for “non-compliant”. “-“ (grey) indicates that the assessment was not carried out.

In order to better reflect the qualitative differences in implementation foreseen by the respective Recommendations, and thus the different metrics used for the respective assessments, the report is structured as follows.

Part I outlines the policy objectives taken into account during the drafting of the Recommendations. Part II describes the methodology used for assessing compliance with ESRB recommendations. Part III consists of country-specific assessments of compliance with the respective Recommendations by addressees. Part IV provides general remarks regarding all Recommendations.

Annex I lists the members of the Assessment Team. Annex II contains the list of abbreviations. Annex III, which will be published as a separate document, provides the implementation standards for each country-specific recommendation.

1 Policy objectives

Vulnerabilities relating to the RRE sector can be a source of systemic risk and may affect financial stability both directly and indirectly. In 2019 the ESRB concluded a systematic and forward-looking European Economic Area (EEA)-wide assessment of vulnerabilities relating to RRE, which identified eleven countries in which medium-term vulnerabilities related to RRE that may be sources of systemic risk are not sufficiently mitigated.[11] The ESRB subsequently issued Recommendations to six countries that had already received warnings in 2016[12] and issued five new warnings to countries where the vulnerabilities were newly identified as not being sufficiently addressed.[13]

While the vulnerabilities assessment was particularly difficult owing to the impact of the coronavirus (COVID-19) pandemic, vulnerabilities have remained elevated in all the countries that received the ESRB recommendations. House prices continued increasing in most cases, or even accelerating, resulting in an unchanged or stronger overvaluation of house prices. Consequently, there were signs of house price overvaluation in a majority of the countries. Risks related to household indebtedness also remained unchanged or even increased in several of the countries. This was partly due to mortgage credit, which continued to grow in most countries. According to the scoreboard calculated in line with **Methodologies for the assessment of real estate vulnerabilities and macroprudential policies: residential real estate**, Belgium, Denmark, Luxembourg, the Netherlands and Sweden displayed pronounced risk in terms of collateral stretch, while Belgium and Luxembourg showed pronounced and medium risks, respectively, in terms of funding stretch. The scoreboard indicators for household stretch suggested that Belgium had medium risk, while all the other countries had pronounced risk.

As the identified vulnerabilities relating to RRE as a source of systemic risks are different across countries, the Recommendations consist of different policy actions. The Recommendations are addressed to Member States and acknowledge the fact that, within a Member State, different authorities may be responsible for the activation of the specific measures that are recommended. However, the assessment of compliance is considered as a single package and the final grade is given at the level of the Member State and not at the level of the individual national authorities.

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11 See "**Vulnerabilities in the residential real estate sectors of the EEA countries**", ESRB, September 2019.

12 The countries to which recommendations were issued on 23 September 2019 are Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden.

13 The countries to which warnings were issued on 23 September 2019 are the Czech Republic, Germany, France, Iceland and Norway.

2 Assessment methodology

The assessment of the implementation of the Recommendations (and of each of the recommendations and sub-recommendations contained therein) was carried out on the basis of the "act or explain" mechanism in accordance with Article 17 of the ESRB Regulation and remains consistent with the methodology used for the previous assessment conducted in 2020[14]. Under those arrangements, the addressees of the Recommendation can either (i) take action in response to each of the recommendations and sub-recommendations and inform the ESRB of such action, or (ii) take no action, provided that they can adequately justify that inaction. The Assessment Team then analyses the information provided and assesses whether the action taken duly achieves the objectives of each recommendation or whether the justification provided for inaction is sufficiently explained. This analysis results in a final compliance grade being assigned to each addressee.

The assessment was based on the submissions made by the addressees by the two subsequent reporting deadlines specified in Section 2(3) of the respective Recommendation (i.e. 31 March 2021 and 31 October 2021) and on further dialogue between the Assessment Team and addressees in the course of the assessment process.

The detailed procedure for the assessment of compliance is set out in the Handbook. The assessment of the Recommendations was carried out by an Assessment Team of six assessors and one alternate, with one Chair, endorsed by the ATC[15] (see Annex I of this Report). The Assessment Team conducted a four-eyes review, which means that compliance of each addressee was assessed by two assessors. In the first stage of the assessment, the assessors evaluated the compliance of the respective addressee with all recommendations/sub-recommendations. In the second stage of the assessment, the assessors evaluated the consistency of the assessments. Assessors were not directly involved in grading the performance of their own authorities. Furthermore, all the addressees were given the opportunity to provide further explanations and information, especially in the context of the remedial dialogue.[16] The initial results were subsequently reviewed and cross-checked to prepare the final assessment.

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14 See **Summary compliance report – March 2021**, ESRB.

15 Via written procedure (ATC/WP/2021/044).

16 The preliminary findings of the Assessment Team were shared and discussed with the addressees on 8 and 9 November 2021.

3 Country-specific analyses

3.1 Belgium

Recommendation ESRB/2019/4 on medium-term vulnerabilities in the residential real estate sector in Belgium was addressed to Belgian national authorities entrusted with recommendation powers or with the application of borrower-based measures (BBMs).

Compliance with recommendation A – activation of legally binding BBMs – was first assessed as of 31 October 2020, and subsequently as of 31 October 2021 based on a report provided by the addressees.

The Recommendation addressed to the Belgian national authorities contained only one recommendation, recommendation A, which refers to the activation of legally binding BBMs in order to prevent:

(a) a significant or an increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption following adverse economic or financial conditions or adverse developments in the residential real estate market; or

(b) a significant or an increasing share of new mortgage loans, secured by residential real estate, that could result in credit losses on these loans in the event of their default and a subsequent decrease in house prices.

In the previous assessment conducted in 2020, the Belgian national authorities were found to be compliant with the spirit and the final objective of the ESRB recommendation to a large extent, despite the non-legally binding nature of the BBM. Therefore, Belgian authorities were assessed as largely compliant with recommendation A.

The follow-up report was submitted by the Nationale Bank van België/Banque Nationale de Belgique (NBB/BNB) also on behalf of the Belgian Minister of Finance.

For Belgium, the weightings applied to recommendation A are presented in the table below. The content was weighted 3/4, while reporting and proportionality were each assigned a weight of 1/8.

Individual weighting

Recommendation A	Weighting
Activation of BBMs	3/4
Proportionality	1/8
Reporting	1/8

The implementation standards for Belgium are presented in Annex III, which will be published as a separate document.

Pursuant to the findings of the assessment, the overall level of compliance with Recommendation ESRB/2019/4 is:

Overall grade

Fully compliant	**Largely compliant**	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Recommendation A – Activation of legally binding BBMs

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation A **is largely compliant.**

The content of the measures to implement the recommended actions was assessed as largely compliant, the proportionality as fully compliant, and the reporting as fully compliant.

Criteria for action	Grade
Content of the measure	Largely compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for recommendation A	*Largely compliant*

The NBB/BNB has activated a non-legally binding BBM. However, Recommendation ESRB/2019/4 recommended the activation of legally binding BBMs. Even though there is a marked improvement in the quality of new mortgage loans owing to the implementation of the supervisory expectations of the NBB/BNB, vulnerabilities in the real estate sector are still present in the stock and flow; namely the overvaluation of real estate markets, a generally increasing debt ratio for Belgian households and the presence of pockets of risk in the stock of loans.

On 23 October 2019 the NBB/BNB, as the macroprudential authority, published a circular introducing supervisory expectations on the internal management of Belgian mortgage credit standards (Circular NBB/2019/27)[17]. A compliance report is requested from all institutions with a market share of at least 0.5% of the total domestic mortgage market. Institutions have to explain the reasons for any non-compliance with the expectations in accordance with the "comply or explain" principle. The supervisory expectations of the NBB/BNB have been applicable since 1

17 See **Expectations of the Belgian macroprudential authority on internal management of Belgian mortgage credit standards as applied by banks and insurance undertakings operating on the Belgian residential property market** – October 2019, NBB/BNB.

January 2020 to all banks and insurance undertakings (governed by Belgian law or established as branches) operating in the Belgian mortgage market.

The previous measure implemented by the Belgian authorities was aimed at bolstering banks' resilience to existing risks in the stock of Belgian mortgage loans, while the new supervisory expectations are aimed at improving the quality of newly granted loans, making sure that average portfolio quality remains adequate. Both measures are intended to maintain access to mortgage markets for solvent borrowers.

With the implementation of the supervisory expectations, the NBB/BNB intends, on one hand, to complement the previous measure activated in the country in accordance with Article 458 of the Capital Requirements Regulation (CRR)[18] and, on the other hand, to limit the accumulation of new vulnerabilities in Belgian mortgage portfolios.

The implementation of the supervisory expectations of the NBB/BNB seems to have improved the quality of new mortgage loans, although vulnerabilities in the RRE market are still persisting on the stock side.

Despite the fact that the NBB/BNB has provided evidence of an improvement in the quality of credit and a turnaround in the share of high-risk loans in new Belgian mortgage loans, the monitoring of compliance with these expectations should be cautiously continued and, in the case of non-compliance, the implementation of legally binding BBMs should be considered.

In addition, the NBB/BNB should closely monitor developments related to the share of new mortgage loans with high debt service-to-income (DSTI) ratios, which share in total loans remained a source of concern in the first half of 2021.

Finally, the level of compliance in the buy-to-let (BTL) segment should also be closely monitored, given that a large breach was observed in the second half of 2020, even though deviations from the NBB/BNB expectations have – to a very large extent – been assessed as sufficiently explained (in accordance with the "comply or explain" principle).

3.2 Denmark

Recommendation ESRB/2019/5 on medium-term vulnerabilities in the residential real estate sector in Denmark was addressed to the macroprudential authority, the designated authority or the competent authority in Denmark, as applicable, the Danish national authorities entrusted with the monitoring of systemic risks, and the Danish authority entrusted with the activation of BBMs.

Compliance with recommendation A – Activation or tightening of capital-based measures – and recommendation B – Monitoring of vulnerabilities and activation or tightening of BBMs – was first assessed as of 31 October 2020, and subsequently as of 31 October 2021 based on a report provided by the addressee.

[18] **Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1)**.

Recommendation A refers to the activation of additional or tightening of existing capital-based measures, so as to ensure the resilience of credit institutions authorised in Denmark in the face of the potential materialisation of systemic risk related to RRE which could lead to direct and indirect credit losses stemming from mortgage loans or arising as a consequence of the decrease in consumption by households with housing loans.

Recommendation B consists of three sub-recommendations:

Sub-recommendation B(1) refers to the close monitoring of vulnerabilities related to household indebtedness, overvaluation of house prices and lending standards for new mortgage loans over the medium term, including, inter alia, by:

(a) assessing – using loan-level data for new mortgage loans – the ability of borrowers taking out new mortgage loans to withstand adverse economic or financial conditions or adverse developments in the residential real estate market; and

(b) assessing the sustainability of house price and the potential for their decrease in the event of adverse economic or financial conditions.

Sub-recommendation B(2) refers to the tightening of existing, or activation of additional, BBMs, if the results of the monitoring carried out pursuant to point (a) of sub-recommendation B(1) provide evidence that a significant or increasing share of borrowers taking out new mortgage loans might not be able to service their debt or maintain consumption under adverse economic or financial conditions or following adverse developments in RRE markets.

Sub-recommendation B(3) refers to increasing the legally binding minimum down payment requirement, if the results of the monitoring carried out pursuant to point (b) of sub-recommendation B(1) provide evidence that the overvaluation of house prices has increased, in order to ensure that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions and to the estimated decrease in house prices in the event of a negative scenario.

In the previous assessment conducted in 2020, the overall grade of compliance of Danish addressees with Recommendation ESRB/2019/5 was “fully compliant”. Despite sub-recommendation B(1) having been implemented and assessed as largely compliant, the inaction regarding recommendation A and sub-recommendations B(2) and B(3) was assessed as sufficiently explained.

The follow-up report was submitted by the Danish Ministry of Industry, Business and Financial Affairs.

For Denmark, the weightings applied to the different recommendations and each of the sub-recommendations are presented in the table below. Overall, equal weights were assigned to recommendations A and B. Furthermore, equal weights were assigned to sub-recommendations B(1), B(2) and B(3). At the level of each recommendation and sub-recommendation, the content was weighted 3/4, while reporting and proportionality were each assigned a weight of 1/8.

Individual weighting

Category	Weighting
Recommendation A	1/2
Recommendation B(1)	1/6
Recommendation B(2)	1/6
Recommendation B(3)	1/6
Recommendation A	Weighting
Activation or tightening of capital-based measures	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(1)	Weighting
Monitoring of vulnerabilities related to household indebtedness, overvaluation of house prices and lending standards	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(2)	Weighting
Activation or tightening of BBMs	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(3)	Weighting
Increase of the legally binding minimum down payment requirement	3/4
Proportionality	1/8
Reporting	1/8

The implementation standards for Denmark are presented in Annex III, which will be published as a separate document.

Pursuant to the findings of the assessment, the overall level of compliance with Recommendation ESRB/2019/5 is:

Overall grade

Fully compliant	**Largely compliant**	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Recommendation A – Activation or tightening of capital-based measures

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation A is **fully compliant.**

The content of the measure to implement the recommended actions was assessed as fully compliant, the proportionality as fully compliant, and the reporting as fully compliant.

Criteria for action	Grade
Content of the measure	Fully compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for recommendation A	*Fully compliant*

Recommendation A refers to the activation of additional capital-based measures or tightening of existing ones to ensure the resilience of credit institutions authorised in Denmark in the face of the potential materialisation of systemic risk related to RRE. Should such risk materialise, it could lead to direct and indirect credit losses stemming from mortgage loans or arising from the decrease in consumption by households with housing loans.

On 22 June 2021, following a recommendation from the Danish Systemic Risk Council, the Danish Minister for Industry, Business and Financial Affairs decided that the countercyclical capital buffer (CCyB) rate will be reactivated at 1% with effect from 30 September 2022.

The recommendation is intended to rebuild the buffer following the recovery of the Danish economy and build-up of risks in the financial system. Moreover, unless there is a significant slowdown in risk build-up, the Systemic Risk Council expects to recommend a further increase in the buffer rate to 2.0% by the end of 2021 with effect from the beginning of 2023. Phased buffer increases are in line with the Systemic Risk Council's strategy of gradually increasing the buffer rate to a level of 2.5%.

Recommendation B – Monitoring of vulnerabilities and activation or tightening of borrower-based measures

Summary of implementation of recommendation B

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation B is **partially compliant.**

Sub-recommendation B(1) – Monitoring of vulnerabilities related to household indebtedness, overvaluation of house prices and lending standards

Criteria for action	Grade
Content of the measure	Fully compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for sub-recommendation B(1)	*Fully compliant*

The Systemic Risk Council monitored vulnerabilities related to household indebtedness, lending standards and overvaluation of house prices. According to the Systemic Risk Council, the high level of household debt compared to international peers remains a source of vulnerability in Denmark, exacerbated by a continued widespread use of deferred amortisation[19], especially among highly leveraged households. In fact, the household debt-to-income (DTI) ratio was 247% in 2020, the highest among European countries. Household debt levels relative to income in Copenhagen are now at an all-time high. Low interest rates further enhance this vulnerability as they allow the burden of housing costs to remain very low despite soaring house prices.

Lending standards seem to have been eased in the Greater Copenhagen area and Aarhus, while remaining largely unchanged in the rest of the country. The share of newly granted mortgages with a high DTI ratio in combination with a high loan-to-value (LTV) ratio is rising in the large cities. This is driven by increases in the average DTI ratio, reflecting the fact that credit growth has recently outpaced income growth. Average LTV ratios on newly granted mortgages have remained stable.

Despite a brief fall in spring 2020, Danish house prices have increased significantly during the COVID-19 pandemic. Soaring house prices have been accompanied by record trading activity and very low housing supply, close to levels last seen in 2006. House price growth has recently flattened, but there is still a high degree of uncertainty about house price developments going forward. The conditions for future house price growth exist: the Danish economy is heading towards a moderate boom with high expected GDP growth, interest rates remain low and housing supply has generally tightened. However, if the drivers of recent developments turn out to be primarily temporary, prices could fall.

The lack of evidence that loan-level microdata were used in the existing monitoring framework and the lack of disclosure on distributions of LTV, DTI and DSTI ratios prevented the Assessment Team from analysing recent developments in household indebtedness and lending standards. However, during the remedial dialogue, the Systemic Risk Council confirmed that the existing monitoring framework is based on loan-level data and proposed to share the distributions of LTV and DTI ratios in new lending.

[19] Mortgages with an initial interest-only period.

The content of the measure was assessed as fully compliant, since the distributions of loan-level data on each indicator were shared with the Assessment Team after the remedial dialogue, the proportionality as fully compliant and the reporting as fully compliant.

Sub-recommendation B(2) – Activation or tightening of BBMs

Criteria for action	Grade
Content of the measure	Materially non-compliant
Proportionality	Insufficiently explained
Reporting	Fully compliant
Grade for sub-recommendation B(2)	*Materially non-compliant*

The Minister for Industry, Business and Financial Affairs has not activated additional BBMs or tightened existing BBMs based on the results of the monitoring carried out pursuant to point (a) of sub-recommendation B(1).

As justification for the inaction, the Danish Government referred to a number of remediating factors limiting the build-up of systemic risks. Credit growth in Denmark has been low to moderate in the years since the global financial crisis of 2008-09. In addition, although there have not been long periods of extraordinary increases in real estate prices such as seen before the financial crisis, the Government has intensified its monitoring of the housing market, especially of trends in the use of deferred amortisation. Moreover, the household debt-to-GDP ratio is below the levels seen in the period leading up to the financial crisis. Finally, despite the increase in new mortgages with deferred amortisation, LTV and DTI ratios have remained fairly stable, albeit with a slight increase in the larger cities.

In line with the Systemic Risk Council's assessment on point (a) of sub-recommendation B(1), the Danish Government noted that the high level of household debt remained a source of vulnerability in Denmark, further exacerbated by the continued widespread use of deferred amortisation, especially among highly leveraged households. In June 2021, to address the vulnerabilities related to the widespread use of mortgages with deferred amortisation, the Systemic Risk Council issued a recommendation to the Danish Government to restrict access to mortgages with deferred amortisation to borrowers with an LTV ratio below 60%. However, the Minister for Industry, Business and Financial Affairs has chosen not to follow the Systemic Risk Council's recommendation to restrict access to interest-only mortgages for the time being.

The content of the measure has been assessed as materially non-compliant owing to the fact that, even though there is no activation or tightening of BBMs, the Danish Economic Council carried out an assessment prior to the decision of the Minister for Industry, Business and Financial Affairs not to activate or tighten BBMs; the proportionality has been assessed as inaction insufficiently explained, since there is evidence that the Danish Government acted disproportionately and the justification provided is inadequate, as there are signs that a significant or increasing share of highly indebted borrowers taking out new mortgage loans might not be able to service their debt or maintain consumption under adverse economic or financial conditions or following adverse developments in the RRE market; and the reporting has been assessed as fully compliant.

The downgrade relative to the compliance report of March 2021 is due to the build-up of potential risks to financial stability from a high level of household indebtedness and an increasing share of loans with deferred amortisation. The Assessment Team can no longer accept the avoidance of potential procyclical effects from the implementation of macroprudential measures at the outbreak of the COVID-19 pandemic as an appropriate and sufficient reason to not activate or tighten BBMs.

Sub-recommendation B(3) – Increase of the legally binding minimum down payment requirement

Criteria for action	Grade
Content of the measure	Materially non-compliant
Proportionality	Insufficiently explained
Reporting	Fully compliant
Grade for sub-recommendation B(3)	Materially non-compliant

The Danish Minister for Industry, Business and Financial Affairs has not increased the legally binding minimum down payment requirements. According to the assessment of house prices carried out by the Danish Government, their development is sustainable at the country level. However, prices have grown more than can be ascribed to fundamentals, adding to existing signs of possible risks to financial stability coming from the housing market.

According to the Danish Government, after a downturn at the outbreak of the COVID-19 pandemic, house price growth has picked up in most parts of Denmark, particularly around the Greater Copenhagen area. Estimates by Danmarks Nationalbank, using a statistical model that takes fundamental drivers into account, indicate that recent developments have pushed up house prices above their historical average. Going forward, there is a considerable uncertainty related to future house price developments, with drivers pulling in both directions.

The content of the measure has been assessed as materially non-compliant owing to the fact that, even though there is no increase of the legally binding minimum down payment requirement, the Systemic Risk Council and the Danish Economic Council carried out assessments pursuant to paragraph 1(b) of sub-recommendation B; the proportionality has been assessed as inaction insufficiently explained, since there is evidence that the Danish Government acted disproportionately and the justification provided is inadequate, as there are signs of potential risks related to the developments in house prices; and the reporting has been assessed as fully compliant.

The downgrade relative to the compliance report of March 2021 is due to the fact that potential risks to financial stability are building up from overvalued house prices. The Assessment Team can no longer accept the avoidance of potential procyclical effects from the activation of macroprudential tools at the outbreak of the COVID-19 pandemic as an appropriate and sufficient reason to not increase the legally binding minimum down payment requirements.

3.3 Luxembourg

Recommendation ESRB/2019/6 on medium-term vulnerabilities in the residential real estate sector in Luxembourg was addressed to national authorities in Luxembourg entrusted with recommendation powers or with the application of BBMs.

Compliance with recommendation A – establishment of a legal framework for BBMs – and recommendation B – activation of legally binding and non-legally binding BBMs – was first assessed as of 31 October 2020, and subsequently as of 31 October 2021 based on a report provided by the addressee.[20]

Recommendation A refers to the establishment of a legal framework for BBMs which includes at least the following legally binding BBMs: DTI, DSTI, LTV and maturity limits.

Sub-recommendation B(1) refers to the activation of non-legally binding BBMs by the Luxembourg national authorities entrusted with the application of BBMs, pending the establishment of the legal framework referred to in recommendation A.

Sub-recommendation B(2) refers to the activation of legally binding BBMs by the Luxembourg national authorities entrusted with the application of BBMs once the legal framework referred to in recommendation A is established.

In the previous assessments conducted in 2020, the overall level of compliance of the Luxembourg national authorities with Recommendation ESRB/2019/6 was assessed as fully compliant. In the light of the introduction of a legal framework for BBMs on 4 December 2019 which included all BBMs specified in the recommendation, the level of compliance with recommendation A was assessed as fully compliant. Inaction by the addressee regarding sub-recommendation B(1) was sufficiently explained, hence the assessment as fully compliant. For sub-recommendation B(2), the assessment showed that further efforts were still needed despite extensive implementation of the sub-recommendation. Therefore, compliance with sub-recommendation B(2) was assessed as largely compliant.

The follow-up report was submitted by the Comité du Risque Systémique (CRS) Secretariat hosted by the Banque centrale du Luxembourg (BCL).

For Luxembourg, the following weighting scheme was applied. Overall, equal weights were assigned to recommendations A and B. Furthermore, equal weights were assigned to sub-recommendations B(1) and B(2). At the level of each sub-recommendation, the content was weighted 3/4, while reporting and proportionality were each assigned a weight of 1/8.

[20] For the assessment of compliance with recommendation A on activation of BBMs, the addressees had already provided – in the interim report due by 31 October 2020 – sufficient information indicating their full compliance with recommendation A. For this reason, the addressees were not requested to submit the final report due by 31 March 2021.

Individual weighting

Category	Weighting
Recommendation A	1/2
Recommendation B(1)	1/4
Recommendation B(2)	1/4
Recommendation A	Weighting
Establishing a legal framework for BBMs	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(1)	Weighting
Activation or tightening of non-legally binding BBMs	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(2)	Weighting
Activation or tightening of legally binding BBMs	3/4
Proportionality	1/8
Reporting	1/8

The implementation standards for Luxembourg are presented in Annex III which will be published as a separate document.

Pursuant to the findings of the assessment, the overall level of compliance with Recommendation ESRB/2019/6 is:

Overall grade

Fully compliant	**Largely compliant**	**Partially compliant**	**Materially non-compliant**	**Non-compliant**	**Sufficiently explained**	**Insufficiently explained**

Recommendation A – Establishing a legal framework for BBMs

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation A is **fully compliant.**

The addressee has established a legal framework for legally binding BBMs.

Criteria for action	Grade
Content of the measure	Fully compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for recommendation A	*Fully compliant*

The content of the measure has been assessed as fully compliant, as the addressee has established a legal framework for legally binding BBMs: DTI, LTI, DSTI, LTV and maturity limits. The proportionality has been assessed as fully compliant, as the addresee provided evidence that it acted in a proportionate manner. The reporting has been assessed as fully compliant, as the follow-up report was delivered on time by the addressee.

Recommendation B

Summary of implementation of recommendation B

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation B is **largely compliant.**

The addressee has not activated non-legally binding measures. However, it has prioritised the completion of the legislative process for setting up a legal framework for legally binding BBMs. The legislative process was completed shortly after, and then the addressee promptly recommended the activation of BBMs under the new legal framework. This led to the activation of a legally binding LTV limit as of January 2021. The addressee has provided evidence that it acted in a proportionate manner.

Sub-recommendation B(1) – Activation or tightening of non-legally binding BBMs

Criteria for action	Grade
Content of the measure	Sufficiently explained
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for sub-recommendation B(1)	*Fully compliant*

The addressee did not activate non-legally binding BBMs. However, the content of the measure has been assessed as sufficiently explained, as the decision reflects the prioritisation of the legislative process for the introduction of legally binding measures (recommendation A), which was completed shortly after and led to the activation of legally binding measures (sub-recommendation

B(2)). The proportionality has been assessed as fully compliant, as the addressee provided evidence that it acted proportionately. The reporting has been assessed as fully compliant, as the follow-up report was delivered on time by the addressee.

Sub-recommendation B(2) – Activation or tightening of legally binding BBMs

Criteria for action	Grade
Content of the measure	Largely compliant
Proportionality	Largely compliant
Reporting	Fully compliant
Grade for sub-recommendation B(2)	*Largely compliant*

The addressee has activated legally binding BBMs. In particular, a legally binding LTV limit differentiated by borrower type was introduced as of January 2021. The differentiation of LTV caps across borrower types aims to ensure that the limits are applied in a way that is proportionate to the underlying risks and in line with concerns regarding market access. According to the addressee, the LTV caps have been assessed as helping contain household debt levels. By containing household mortgage debt, the differentiated LTV limit helps to ensure that borrowers are able to service their debt and maintain consumption in adverse times, and thereby reduces the credit risk associated with a credit institution's portfolio of new mortgage loans.

Following the remedial dialogue, the addressee sent additional data to justify the decision to activate limits to the LTV ratio in isolation and not in combination with limits to the DTI ratio or to the DSTI ratio and maturity limits. It is noted that there has been a partial improvement in the lending standards since the implementation of BBMs. The share of new mortgage loans with LTV ratios above 80% has decreased, and the share of new loans with a DSTI ratio above 40% has fallen somewhat. Other indicators of lending standards related to borrowers' income and indebtedness have stabilised.

The growth rate of household indebtedness reflects the substantial and sustained price increases in the domestic RRE market coupled with the lack of any sign of deceleration in mortgage credit growth. However, the activation of income-based measures was discussed by national authorities in Luxembourg, given their high complementarity with the LTV limit. Nevertheless, the addressee did not activate such measures on the basis that they might have procyclical effects. In addition, the addressee remarked that the LTV limit was imposed quite recently and there is empirical evidence that the full impact of the measure will only be observed after a longer period of time.

The content of the measure has been assessed as largely compliant, as the actions only include the LTV caps. The proportionality has been assessed as largely compliant, as there is no clear evidence that the addressee acted in a disproportionate manner. The reporting has been assessed as fully compliant, as the follow-up report was delivered on time by the addressee.

3.4 The Netherlands

Recommendation ESRB/2019/7 on medium-term vulnerabilities in the residential real estate sector in the Netherlands was addressed to the Netherlands and the macroprudential authority, the designated authority or the competent authority in the Netherlands, as applicable, entrusted with the activation of capital-based measures.

Compliance with sub-recommendation B(1) – tightening of BBMs – and with recommendation C – activation of capital-based measures – was first assessed as of 31 October 2020.

Addressees were also required to report on compliance with the implementation of recommendation A – legal framework for BBMs – and sub-recommendation B(2) – approach to calibration – as of 31 March 2021, which were assessed during this assessment round.

Recommendation A refers to the establishment of a legal framework for BBMs which ensures the accountability of the authority responsible for the application of such BBMs.

Sub-recommendation B(1) refers to the lowering of the current legally binding limit applicable to the LTV ratio in order to enhance the coverage of credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions.

Sub-recommendation B(2) refers to a change in methodology for determining the maximum limit that applies to the DSTI ratio in order to avoid procyclical effects on the economic and financial cycles.

Recommendation C refers to the activation of capital-based measures in order to enhance the resilience of credit institutions authorised in the Netherlands in the face of systemic risk related to RRE.

In the previous assessment conducted in 2020, the overall level of compliance of the Dutch authorities with Recommendation ESRB/2019/7 was assessed as “partially compliant”. Inaction regarding sub-recommendation B(1) was assessed as insufficiently explained, as it had not been initially demonstrated that implementation of sub-recommendation B(1) would be disproportionate. Inaction regarding recommendation C was, however, deemed sufficiently explained, hence the overall level of compliance with recommendation C was “fully compliant”.

The follow-up reports were submitted by the Dutch Ministry of Finance for recommendation A and sub-recommendations B(1) and B(2) and by De Nederlandsche Bank (DNB) for recommendation C.

For the Netherlands, the following weighting scheme was applied. Equal weights were assigned to recommendations A, B and C. Furthermore, equal weights were assigned to sub-recommendations B(1) and B(2). At the level of each sub-recommendation, the content was weighted 3/4, while reporting and proportionality were each assigned a weight of 1/8.

Individual weighting

Category	Weighting
Recommendation A	1/3
Recommendation B(1)	1/6
Recommendation B(2)	1/6
Recommendation C	1/3
Recommendation A	Weighting
Legal framework for BBMs	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(1)	Weighting
Tightening of BBMs	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(2)	Weighting
Approach to calibration	3/4
Proportionality	1/8
Reporting	1/8
Recommendation C	Weighting
Activation of capital-based measures	3/4
Proportionality	1/8
Reporting	1/8

The addressee provided a follow-up report on the implementation of recommendations B(1) and C of Recommendation ESRB/2019/7 by 31 October 2021 which was assessed together with the report due by 31 March 2021 on the implementation of recommendations A and B(2).

The implementation standards for the Netherlands are presented in Annex III, which will be published as a separate document.

Pursuant to the findings of the assessment, the overall level of compliance with Recommendation ESRB/2019/7 is:

Overall grade

Fully compliant	Largely compliant	**Partially compliant**	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Recommendation A – Legal framework for BBMs

Summary of implementation of recommendation A

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation A is **partially compliant.**

The ESRB recommended that the recommendation powers of the Financial Stability Committee (FSC) be complemented by an "act or explain" mechanism, or alternatively, where this is not possible under Dutch law, that an accountability mechanism be established in order to make public the views of the Dutch Government following a recommendation issued by the FSC. The Dutch Government explained why an "act or explain" mechanism is not possible under Dutch law and is preparing legislation that provides for the embedding of the FSC in primary law.

Criteria for action	Grade
Content of the measure	Materially non-compliant
Proportionality	Largely compliant
Reporting	Fully compliant
Grade for recommendation A	*Partially compliant*

As regards recommendation A, the Dutch Government has stated that the power of the FSC to issue recommendations will not be complemented by an "act or explain" mechanism as this would not be consistent with the Dutch constitutional system. An alternative mechanism has remained in place to make public the views of the authority responsible for the application of BBMs issued by the FSC. Recommendations are forwarded to the Dutch Parliament, where the responsible ministers may be questioned. The Dutch Government notes that this mechanism functions well and serves to enhance public accountability and transparency.

The nature of this recommendation points to the lack of power of the recommendations issued by the FSC and ineffective communication between the Dutch Government and the FSC. The Assessment Team considers the reasoning of the Dutch Government as to why it is not possible to implement the "act or explain" mechanism under Dutch law to be satisfactory. However, the alternative mechanism mentioned above, which has been in effect since 2012, is considered insufficient for the reasons also mentioned above. Therefore, despite the delay in implementing this recommendation, which was due to be implemented by 31 March, the Assessment Team welcomes the information provided during the remedial dialogue on the Government's current steps to strengthen the powers of the FSC and, hence, assesses this recommendation as materially non-compliant. The proportionality is assessed as largely compliant, as there is no clear evidence that the addressee acted in a disproportionate manner. The reporting is assessed as fully compliant.

Nevertheless, the Assessment Team assumes that the Dutch Government will inform ESRB Secretariat about the legislative progress related to the embedding of the FSC in primary law.

Recommendation B

Summary of implementation of recommendation B

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation B is **non-compliant.**

The ESRB recommended that the Dutch Government, which is responsible for BBMs, tighten the LTV ratio and change the methodology for determining the maximum limit of the DSTI ratio. The Dutch Government has not taken any action on either of these sub-recommendations.

Sub-recommendation B(1) – Tightening of BBMs

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently explained
Reporting	Partially compliant
Grade for sub-recommendation B(1)	*Non-compliant*

As regards sub-recommendation B(1), the content of the measure has been assessed as insufficiently explained, given that the Dutch Government has not taken any further action on tightening the LTV ratio since the previous compliance report. The assessment on content has remained unchanged.[21] During the remedial dialogue, the addressee mentioned that the LTV ratio has maintained its decreasing trend and that it considers the current measures to be sufficient to mitigate the systemic risk.

However, there is still a high share of new loans to first-time buyers with an LTV ratio above 90%. Moreover, the Dutch Government did not provide an assessment indicating that there was no need for further tightening of the LTV ratio to mitigate systemic risk, even though house prices are rising (prices rose by 10.3% and 13%, respectively, in the first two quarters of 2021) as is the amount of new mortgages with an LTI above 90% (about 55% of new mortgages provided to first-time buyers). As macroprudential policy and its tools should primarily serve to mitigate risks to the stability of the financial system, which are significant in the RRE sector in the Netherlands, the Assessment Team considers the justification to be insufficiently explained, despite the additional information provided by the addressee during the assessment process. Therefore, the proportionality has been assessed as insufficiently explained, given that the justification for not implementing sub-recommendation B(1) provided by the Dutch authorities during the remedial dialogue is considered inadequate when taking into account the risks stemming from the RRE sector, which could have been lower if the LTV ratio had been further tightened. Finally, the

[21] **Summary compliance report, March 2021**, ESRB.

reporting has been assessed as partially compliant owing to the delay in reporting. This led to a decrease in the grade for this criterion when compared to the previous report.

Sub-recommendation B(2) – Approach to calibration

Criteria for action	Grade
Content of the measure	Insufficiently explained
Proportionality	Insufficiently explained
Reporting	Fully compliant
Grade for sub-recommendation B(2)	*Non-compliant*

As regards sub-recommendation B(2), the Dutch Government reported that, since 2017, four-year averaging has been used to reduce the procyclical element of DSTI limits. The methodology for determining DSTI limits was evaluated in 2019. Following this evaluation, the Dutch Government decided to continue to use four-year averages. The Dutch Government deems the current methodology for determining DSTI limits to be effective in mitigating systemic risks and countering procyclicality.

The Assessment Team considers the inaction on measures to reduce procyclicality as insufficiently explained, since the averaging mentioned by the addressee was already in place in the process of adapting Recommendation ESRB/2019/7 and the evaluation only covered averaging methods and not completely different methodologies for calculating DSTI limits. The proportionality has been assessed as insufficiently explained, given that the justification provided by the Dutch authorities is inadequate. In addition, the DSTI limits may continue to exacerbate cyclical house price fluctuations, because changes in disposable income still influence the cap on the DSTI ratio. Furthermore, during the remedial dialogue, the addressee stated that there are no plans for future changes in this methodology, as the DSTI ratio was implemented with a consumer protection perspective of guaranteeing some stability. Hence, the additional information provided by the addressee has not led to a change in grade for the content. Finally, the reporting has been assessed as fully compliant.

Recommendation C – Activation of capital-based measures

Summary of implementation of recommendation C

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation C is **fully compliant.**

The ESRB recommended that the Dutch authority activate capital-based measures to ensure the resilience of credit institutions authorised in the Netherlands in the face of the potential materialisation of systemic risk related to the RRE market. The Dutch authority activated a measure under Article 458 of the CRR which will come into force as of 1 January 2022.

Criteria for action	Grade
Content of the measure	Fully compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for recommendation C	*Fully compliant*

As regards recommendation C, on 17 March 2020 DNB decided to postpone the introduction of the measure provided for in Article 458 of the CRR in the light of the COVID-19 outbreak and its potential impact on the Dutch economy and the financial sector. On 21 June 2021 DNB decided not to further postpone its introduction and announced that the measure will come into force as of January 2022. On 21 October 2021 the introduction of the Article 458 measure was published in the Government Gazette. The calibration of the measure assigns a 12% risk weight to the portion of the loan not exceeding 55% of the market value of the collateral, and a 45% risk weight to the remaining portion of the loan. The risk weight floor for the mortgage portfolio is then calculated as the exposure-weighted average of the assigned risk weights for the individual loans, which means that the risk weights of the individual loans to be used for this calculation increase gradually with the LTV ratio. Risk weights range from 12% for loans with an LTV ratio below or equal to 55% to 26.85% for loans with an LTV ratio of 100% or even higher for loans with LTV ratios above 100%. The measure is expected to increase the average risk weights of banks using the internal ratings-based approach (IRB banks) by 3 to 4 percentage points.

Owing to rising vulnerabilities in the RRE sector related to house price overvaluation, high LTV ratios and high household indebtedness, the Assessment Team consider the measure taken under Article 458 of the CRR to be fully compliant with recommendation C. The measure aims to mitigate the potential materialisation of systemic risk related to low risk weights which IRB banks in the Netherlands apply to real estate exposures and is assessed as proportionate, given the strong economic outlook. In addition, DNB mentioned that it will launch a consultation on the new CCyB framework in December 2021.

3.5 Finland

Recommendation ESRB/2019/8 on medium-term vulnerabilities in the residential real estate sector in Finland was addressed to the Finnish national authorities entrusted with the activation or calibration of income-related BBMs.

Compliance with recommendation A – establishment of a legal framework for BBMs – and recommendation B – activation of income-related BBMs – was first assessed as of 31 October 2020, and subsequently as of 31 October 2021 based on a report provided by the addressees.[22]

Recommendation A consists of two sub-recommendations:

Sub-recommendation A(1) refers to the legal framework for BBMs. It is recommended that Finland ensure that the existing legal framework for BBMs includes at least the following legally binding BBMs:

(a) either limits that apply to the DTI ratio or limits that apply to the DSTI ratio;

(b) limits that apply to the LTV ratio; and

(c) maturity limits.

Sub-recommendation A(2) refers to the amendment of the definition of the LTV ratio in the existing legal framework for BBMs.

Recommendation B consists of two sub-recommendations:

Sub-recommendation B(1) refers to the activation of non-legally binding BBMs. It is recommended that, pending the amendment of the existing legal framework as referred to in recommendation A, the Finnish national authorities entrusted with the activation of income-related BBMs apply non-legally binding BBMs in order to prevent a significant or increasing share of borrowers taking out new mortgage loans who might not be able to service their debt or maintain consumption in the event of adverse economic or financial conditions or adverse developments in the RRE market.

Sub-recommendation B(2) refers to the activation of legally binding income-related BBMs. It is recommended that, once the existing legal framework has been amended as referred to in recommendation A, the Finnish national authorities entrusted with the activation or calibration of income-related BBMs activate or calibrate, respectively, legally binding income-related BBMs to further address the objectives set out in sub-recommendation B(1).

In the previous assessment conducted in 2020, the overall level of compliance of the Finnish national authorities with Recommendation ESRB/2019/8 was "largely compliant". The addressee was deemed to be largely compliant with recommendation A, being partially compliant with sub-recommendation A(1) owing to a delay in implementation due to the COVID-19 pandemic and a shortage of resources, and fully compliant as regards sub-recommendation A(2). However, the level of compliance with recommendation B was partially compliant, since the assessment indicated a need to further activate or tighten other BBMs. Sub-recommendation B(2) was not assessed since its compliance was conditional on the full implementation of recommendation A.

The follow-up report was submitted by the Finnish Ministry of Finance and the Finnish Financial Supervisory Authority (FIN-FSA).

[22] Following communication with the addressee of recommendation A, the implementation of recommendation A due by 31 March 2021 (final report) was assessed on the basis of the information submitted by 31 October 2021.

For Finland, the weightings applied to the different sub-recommendations are presented in the table below. The weights assigned to sub-recommendations A(1), A(2) and B(1) were respectively 3/8, 1/8 and 4/8. Sub-recommendation B(2) is considered as non-applicable at this stage and its weight in this assessment is zero.[23] At the level of each sub-recommendation, the content was weighted 3/4, while reporting and proportionality were each assigned a weight of 1/8.

Individual weighting

Category	Weighting
Recommendation A(1)	3/8
Recommendation A(2)	1/8
Recommendation B(1)	1/2
Recommendation B(2)	-
Recommendation A(1)	Weighting
Legal framework for BBMs	3/4
Proportionality	1/8
Reporting	1/8
Recommendation A(2)	Weighting
Amendment of the definition of the LTV ratio	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(1)	Weighting
Activation of non-legally binding BBMs	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(2)	Weighting
Activation of legally binding BBMs	-
Proportionality	-
Reporting	-

The implementation standards for Finland are presented in Annex III, which will be published as a separate document.

Pursuant to the findings described in the following sections, the overall level of compliance with Recommendation ESRB/2019/8 is:

Overall grade

Fully compliant	Largely compliant	**Partially compliant**	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

[23] Details are provided in Section 3.5.3.

Recommendation A – Legal framework for borrower-based measures

Summary of implementation of recommendation A

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation A is **partially compliant.**

Sub-recommendation A(1) – Legal framework for BBMs

Criteria for action	Grade
Content of the measure	Materially non- compliant
Proportionality	Largely compliant
Reporting	Largely compliant
Grade for sub-recommendation A(1)	*Materially non- compliant*

Final grade

Pursuant to the findings below, the overall level of compliance with sub-recommendation A(1) is **materially non-compliant**.

The content of the measures has been assessed as materially non-compliant (see below), while the proportionality and reporting have been assessed as largely compliant, given that the addressee intends to modify the existing legal framework for BBMs, in particular the extension of the loan-to-collateral (LTC) limit in terms of the borrowers and lenders covered and the imposition of a maturity limit. However, DTI or DSTI limits will not be part of the proposal.

The existing Finnish legal framework for BBMs has still not been amended to include the recommended legally binding BBMs. However, the addressee has clarified that a legislative proposal focused on limiting the use of leverage is being finalised (by including an LTC limit that applies to all borrowers and lenders, and maturity limits, but without including DTI/DSTI limits) and is going to be presented for public consultation before the end of 2021, after which it will be submitted to the Finnish Parliament.

To complement the existing macroprudential measures in Finland, it was recommended that the existing legal framework be amended to include at least three legally binding BBMs. However, the addressee has not yet modified the existing legal framework for BBMs, and the LTC limit is still the only legally binding measure that applies to housing loans in Finland. Nevertheless, a legislative proposal is currently ongoing. Should the proposal be approved by the Finnish Parliament as planned, the amended legislative framework would extend the LTC limit to apply to all lenders, introduce maturity limits and new restrictions on housing company loans, but still not include DTI or

DSTI limits (in other respects, the proposal is expected to follow a report on means to prevent excessive household indebtedness[24]).

Regarding the timeline of the legislative process, consideration of the proposal by the Finnish Parliament and its possible entry into force can only be envisaged during the second quarter of 2022, whereas recommendation A specified that the amendments to the Finnish legal framework for BBMs should be in force by no later than 1 July 2021.

The downgrade relative to the compliance report of March 2021 is due to the fact that the 1 July 2021 deadline for extending the existing legal framework for BBMs has passed, while the addressee has not yet modified the existing legal framework, and the Assessment Team can no longer consider delays attributed to the COVID-19 pandemic or to shortages or changes in human resources to be acceptable.

Sub-recommendation A(2) – Amendment of the definition of the LTV ratio

Criteria for action	Grade
Content of the measure	Sufficiently explained
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for sub-recommendation A(2)	*Fully compliant*

Final grade

Pursuant to the findings below, the overall level of compliance with sub-recommendation A(2) is **fully compliant.**

The content of the measures has been assessed as sufficiently explained, while the proportionality and reporting have been assessed as fully compliant.

The definition of the LTV ratio has not been amended in the existing legal framework for BBMs, but inaction is justified as the existing LTC limit worked effectively and was used in a reactive way during and after the peak of the COVID-19 pandemic. However, both Suomen Pankki – Finlands Bank and the FIN-FSA have continuously called for the definition of LTV to be brought more in line with the ESRB Recommendation, and the current legislative proposal would broaden its scope so that the existing limit on the LTC ratio would also apply to non-bank lenders.

The requirements of sub-recommendation A(2) have not been met: while it was recommended that the definition of the LTV ratio in the existing legal framework be amended by no later than 1 July 2021, the definition of the LTC ratio has not been amended, so assets other than real estate can

[24] **Report on means to prevent excessive household indebtedness: Report of the working group** (in Finnish).

still be considered as eligible collateral. Furthermore, no changes to its definition are planned in the legislative proposal pursuant to sub-recommendation A(1).

The inaction is, however, justified for the following reasons. First, the existing ratio has proved to work in accordance with its objective, including during the COVID-19 pandemic. In particular, the FIN-FSA did not restrain from adjusting the existing LTC ratio (loan cap) in a reactive way in response to changes in the economic environment caused by the pandemic. Second, the other measures planned in the legislative proposal pursuant to sub-recommendation A(1) are intended to complement the existing LTC ratio in line with the general purpose of the Recommendation. Third, the legislative proposal suggests that the scope of the maximum LTC ratio be extended so that the limit also applies to housing loans granted by other types of lenders, such as housing companies, rather than to credit institutions only. s, both Suomen Pankki – Finlands Bank and the FIN-FSA have repeatedly recommended that the definition of the LTC ratio in the existing legislation be adapted so as to better correspond with the ESRB Recommendation.

Recommendation B – Activation of income-related borrower-based measures

Summary of implementation of recommendation B

Final grade

Pursuant to the findings below, the overall level of compliance with recommendation B is **partially compliant.**

Currently, non-legally binding BBMs have not been implemented, although the FIN-FSA Board has issued communications regarding loan sizes relative to borrowers' income and maturities of new mortgage loans. As such, the action cannot be considered fully adequate to address the risks identified. However, following the remedial dialogue, the FIN-FSA agreed to issue a recommendation on the application of non-legally binding limits on DTI or, alternatively, DSTI during the first half of 2022. On the other hand, the calibration of the measures will not be decided until early 2022.

Sub-recommendation B(1) – Activation of non-legally binding BBMs

Criteria for action	Grade
Content of the measure	Partially compliant
Proportionality	Largely compliant
Reporting	Fully compliant
Grade for sub-recommendation B(1)	*Partially compliant*

Final grade

Pursuant to the findings below, the overall level of compliance with sub-recommendation B(1) is **partially compliant**

The content of the measures has been assessed as partially compliant (see below); the proportionality as largely compliant, as the addressee points to mitigating factors (uncertain economic and financial environment and the existing LTC requirement) that show it has acted in a proportionate manner; and the reporting as fully compliant.

As of November 2021, in order to prevent vulnerabilities related to household indebtedness from increasing and pending the amendment of the existing legal framework, non-legally binding BBMs have not been applied, although the FIN-FSA Board has issued several recommendations instructing lenders to show restraint when granting loans to potentially vulnerable applicants. In recent months household indebtedness has continued to increase, fuelled by continued growth in the household loan stock, low interest rates and the offering of contracts with longer maturities. It was also observed that a significant number of instalment-free periods were granted to households. Thus, the level of household indebtedness in a context of risks building up, justifies the implementation of the recommendations on DTI or DSTI.

The FIN-FSA informed the ESRB that it proposed to issue recommendations on the application of non-legally binding measures on the DTI or, alternatively, DSTI ratio in the first half of 2022. The necessary assessments, which resulted in the proposal, have been carried out, but the measures have not yet been implemented. Moreover, a decision on the calibration of these measures will not be taken until early 2022.

With respect to the content of the measure, the following compliance grade has been assessed – partially compliant. The grade takes into account that these decisions will be taken by the FIN-FSA later on. The impact of these measures on the vulnerabilities in the RRE sector in Finland will be part of the subsequent assessment carried out in 2022.

Sub-recommendation B(2) – Activation of legally binding BBMs

Criteria for action	Grade
Content of the measure	N/A
Proportionality	N/A
Reporting	N/A
Grade for sub-recommendation B(2)	*N/A*

Final grade

Pursuant to the findings below, the overall level of compliance with sub-recommendation B(2) **cannot be included in the assessment.**

The activation or calibration of legally binding income-related BBMs in Finland is conditional on the amendment of the existing legal framework as referred to in recommendation A. However, given that the existing legal framework has not been amended to allow income-related BBMs to be activated or calibrated, sub-recommendation B(2) cannot be complied with at this stage, and the inaction regarding sub-recommendation B(2) has not been assessed by the Assessment Team.

Consequently, and in accordance with the methodology previously adopted in the summary compliance report of March 2021, sub-recommendation B(2) does not apply and its weight in the assessment is zero.

3.6 Sweden

Recommendation ESRB/2019/9 on medium-term vulnerabilities in the residential real estate sector in Sweden was addressed to the Swedish national authorities entrusted with the monitoring of systemic risks, the Swedish macroprudential authority entrusted with the activation of BBMs and the macroprudential authority, the designated authority or the competent authority in Sweden, as applicable.

Compliance with recommendation B – Monitoring of vulnerabilities and activation or tightening of macroprudential measures – was first assessed as of 31 October 2020, and subsequently as of 31 October 2021 based on a report provided by the addressees.

Recommendation B consists of three sub-recommendations:

Sub-recommendation B(1) refers to the close monitoring of vulnerabilities related to household indebtedness and overvaluation of house prices over the medium term, including, inter alia, by:

(a) assessing – using loan-level data for new mortgage loans – the ability of borrowers taking out new housing loans to withstand adverse economic or financial conditions or adverse developments in the residential real estate market; and

(b) assessing potential credit losses on existing mortgage portfolios, as well as potential second-round effects on financial stability in the event of adverse economic or financial developments.

Sub-recommendation B(2) refers to the tightening of existing, or activation of other, BBMs, if the results of the monitoring carried out pursuant to point (a) of sub-recommendation B(1) provide evidence that a significant or increasing share of borrowers taking out new housing loans might not be able to service their debt following an adverse economic or financial development.

Sub-recommendation B(3) refers to the tightening of existing, or introduction of other, capital-based measures to ensure sufficient capital for mortgage loans granted by credit institutions authorised in Sweden, if the results of the monitoring carried out pursuant to point (b) of sub-recommendation B(1) provide evidence that potential credit losses on existing mortgage loans in the event of adverse economic or financial conditions or adverse developments in the RRE market, as well as credit losses on other loans as a consequence of the decrease in consumption by households with housing loans, have increased due to cyclical, economic and financial factors.

In the previous assessment conducted in 2020, the overall level of compliance of the addressees with Recommendation ESRB/2019/8 was “fully compliant”. Only sub-recommendation B(1) had been implemented by the addressee, and was assessed as largely compliant, while inaction regarding sub-recommendations B(2) and B(3) was assessed as sufficiently explained.

The follow-up report was submitted by Finansinspektionen (the Swedish Financial Supervisory Authority) for sub-recommendations B(1), B(2) and B(3), and by Sveriges Riksbank for sub-recommendation B(1).

For Sweden, the weightings applied to the different sub-recommendations are presented in the table below. Overall, equal weights were assigned to each sub-recommendation. At the level of each sub-recommendation, the content was weighted 3/4, while reporting and proportionality were each assigned a weight of 1/8.

Individual weighting

Category	Weighting
Recommendation B(1)	1/3
Recommendation B(2)	1/3
Recommendation B(3)	1/3
Recommendation B(1)	Weighting
Monitoring of the RRE risk framework	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(2)	Weighting
Tightening of existing BBM or activation of others	3/4
Proportionality	1/8
Reporting	1/8
Recommendation B(3)	Weighting
Activation or tightening of capital-based measures	3/4
Proportionality	1/8
Reporting	1/8

The implementation standards for Sweden are presented in Annex III, which will be published in a separate document.

Pursuant to the findings of the assessment, the overall level of compliance with Recommendation ESRB/2019/9 is:

Overall grade

Fully compliant	**Largely compliant**	Partially compliant	Materially non-compliant	Non-compliant	Sufficiently explained	Insufficiently explained

Recommendation B – Monitoring of vulnerabilities and activation or tightening of macroprudential measures

Summary of implementation of recommendation B

Pursuant to the findings below, the overall level of compliance with recommendation B **is largely compliant.**

The Swedish Financial Supervisory Authority has already established a well-functioning monitoring framework to assess vulnerabilities to household indebtedness and overvaluation of house prices. The current monitoring framework is continuously evolving, as the addressee is trying to enrich it and has taken the respective legislative initiatives. However, some key variables should be collected at a higher frequency to better analyse the changes in credit conditions and better assess the resilience of households. The addressee acknowledges the lack of data at a higher frequency and is exploring ways to solve the issue of collecting data at shorter intervals. The mortgage survey is currently collected annually. A new survey is expected to be launched in 2022 which will cover some of the same information as the mortgage survey and will increase the data frequency. The addressee is exploring ways to collect some of the mortgage survey data semi-annually to further increase the frequency.

The Swedish Financial Supervisory Authority decided to officially terminate the exemption from the amortisation requirements, taking into account that the degree of uncertainty surrounding economic developments had sufficiently decreased and that the economic recovery is under way. However, despite the economic improvement and better forecasts on unemployment, the addressee decided not to activate new, or tighten existing, BBMs to address rising vulnerabilities in the RRE sector in view of the strong repayment ability of mortgagors. Instead, the Swedish Financial Supervisory Authority decided to re-set and tighten the existing capital-based measures.

Sub-recommendation B(1) – Monitoring of the RRE risk framework

Criteria for action	Grade
Content of the measure	Largely compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for sub-recommendation B(1)	*Largely compliant*

The Swedish Financial Supervisory Authority has established a well-functioning monitoring framework to assess vulnerabilities to household indebtedness and overvaluation of house prices. The monitoring framework includes the use of loan-level data, the conduct of market surveys, the collection of statistical data on other types of credit, the assessment of the disposable income of borrowers as well as the execution of stress tests for mortgage portfolios under adverse scenarios. The current monitoring framework is continuously evolving, as the addressee is trying to enrich it and has taken the respective legislative initiatives. However, some key variables should be collected at a higher frequency to better analyse the changes in credit conditions and better assess the resilience of households. The addressee acknowledges the lack of semi-annual data and is exploring ways to solve the issue of collecting data at shorter intervals.

Sub-recommendation B(2) – Tightening of existing BBMs or activation of others

Criteria for action	Grade
Content of the measure	Partially compliant
Proportionality	Largely compliant
Reporting	Fully compliant
Grade for sub-recommendation B(2)	*Partially compliant*

In April 2020, in the face of the economic uncertainty due to the COVID-19 pandemic, the Swedish Financial Supervisory Authority decided to change the interpretation of section 11 of the amortisation regulations by introducing new general guidelines in order to enhance the ability of households to manage their liquidity risks.[25] This section contains a description of circumstances in which banks are allowed to temporarily soften amortisation requirements for a fixed period of time so that borrowers can negotiate a pause in payments.

In March 2021, in an attempt to counteract growing imbalances, the Swedish Financial Supervisory Authority communicated its decision to let the temporary exemption from the amortisation requirements expire on 31 August 2021 according to plan. The decision was based on an assessment which indicated a sufficiently strong economic recovery and, consequently, a reduced need for households to temporarily pause amortisation payments. The introduction of amortisation requirements has resulted in an improvement in the resilience of borrowers taking out new mortgages in recent years. However, the Swedish Financial Supervisory Authority has decided not to tighten existing or introduce new BBMs to contain the accumulation of credit risk. This decision was based on an assessment that indicated that the repayment ability of new mortgagors remains sufficiently strong.

Nevertheless, there is clear evidence that risks to financial stability are building up from the RRE sector and that the measures in place have not been successful in decreasing the share of new mortgage loans granted to borrowers with high LTI ratios. Considering the high level of household indebtedness, strong growth in mortgage lending and overvaluation of house prices,

[25] See **Finansinspektionen's general guidelines on exemption from amortisation requirements on special grounds**, April 2020, Finansinspektionen.

complementary measures could be considered, that would effectively limit the borrowing of highly leveraged households and their interest rate sensitivity, while striking a balance between mitigating the risks and avoiding a procyclical effect on the overall performance of the real economy and financial system. Thus, the content of the measure was assessed as partially compliant; the proportionality was assessed as largely compliant, as there is no clear evidence that the addressee acted in a disproportionate manner; and the reporting was assessed as fully compliant.

The downgrade relative to the compliance report of March 2021 is primarily due to the fact that potential risks to financial stability are still building up from overvalued house prices and the continuing increase in household indebtedness as well as an important share of new mortgage loans granted to borrowers with high LTI ratios. The Assessment Team can no longer accept the avoidance of potential procyclical effects from the activation of macroprudential tools at the outbreak of the COVID-19 pandemic as an appropriate and sufficient reason not to tighten existing or introduce new BBMs to contain the accumulation of credit risk.

Pursuant to the findings above, the level of compliance with the implementation of sub-recommendation B(2) is **partially compliant.**

Sub-recommendation B(3) – Activation or tightening of capital-based measures

Criteria for action	Grade
Content of the measure	Fully compliant
Proportionality	Fully compliant
Reporting	Fully compliant
Grade for sub-recommendation B(3)	*Fully compliant*

The Swedish Financial Supervisory Authority has already decided to increase the CCyB to 1% (applicable from September 2022) and to further increase the buffer during 2022 so as to reach a rate of 2%. In addition, the risk weight floor for Swedish mortgages has been extended for two years in accordance with Article 458 of the CRR.

4 General remarks

The Assessment Team has assessed the compliance of the six EU Member States (Belgium, Denmark, Finland, Luxembourg, the Netherlands and Sweden) that have received ESRB Recommendations on medium-term vulnerabilities in the RRE sector. The compliance assessment findings are as follows: one addressee is assessed as fully compliant (Luxembourg), three addressees are assessed as largely compliant (Belgium, Denmark and Sweden), and two addressees are assessed as partially compliant (Finland and the Netherlands).

Relative to the previous assessment, the compliance of Denmark, Finland and Sweden has been downgraded by one level. The Assessment Team can no longer accept the avoidance of procyclical effects from the activation or tightening of macroprudential tools at the outbreak of the COVID-19 pandemic as an appropriate and sufficient reason not to implement the recommendations.

Moreover, when compared to the previous compliance report, there is now clear evidence that risks to financial stability are building up in the RRE sector and vulnerabilities can potentially be amplified by the economic recovery and the decline in uncertainty related to the pandemic. Considering the developments in risks related to the RRE sector, the Assessment Team has decided to change the weights for the grading of the level of compliance, giving more weight to the economic substance of the recommendations than in the previous assessment.

Overall, the number of inactions as opposed to actions fell substantially when compared to the previous compliance report, from 9 out of 17 sub-recommendations to 4 out of 19 sub-recommendations (recommendations A and B(2) for the Netherlands were assessed for the first time in November 2021). The reversal of the large majority of inactions resulted from the implementation or activation of the recommended measures after the easing of the COVID-19 crisis.

Furthermore, there has been significant progress on the monitoring of risks and vulnerabilities in the RRE sector in these countries, especially in terms of improving data availability (although there are still some data lag issues). Further close monitoring of developments in the RRE sector is recommended in the six Member States assessed.

In parallel to this report, the ESRB Secretariat has conducted a forward-looking analysis of the RRE vulnerabilities in these six countries. The findings of this analysis are summarised in the report entitled "Vulnerabilities in the EU residential real estate sector, October 2021".[26]

Considering the risk developments related to the RRE sector from a general high level of household indebtedness and overvaluation of house prices, and taking into account the economic and financial conditions following the COVID-19 crisis, the six countries should proceed with fulfilling the remaining ESRB recommendations. Addressees that have not implemented the recommended actions and addressees that are not fully compliant with the Recommendations at this stage should take further steps to ensure that they comply in the near future. A deterioration of the situation in the RRE sector, translated into an increase in RRE risks and vulnerabilities, could

[26] To be published at the same time as the present Compliance report.

trigger the need for countries to consider the following actions: adjust or complement the legal framework for BBMs in Finland and the Netherlands; introduce legally binding BBMs or adjust existing non-legally binding BBMs in Belgium and Finland; adjust existing BBMs or introduce new ones in Denmark, Luxembourg, the Netherlands and Sweden.

Annexes

Annex I: Composition of the Assessment Team

(approved by the ATC via Written Procedure ATC/WP/2021/0044)

Chairperson	Institutions
Fátima Silva	Banco de Portugal
Assessment Team	
Francesco Caloia	De Nederlandsche Bank
Simon Dagrain	Commission de Surveillance du Secteur Financier
Zouhair Kechoute	Banque centrale du Luxembourg
Martin Kotlář	Česká národní banka
Vítor Oliveira (alternate member)	Banco de Portugal
Maria Vergeti	Bank of Greece

Annex II: Abbreviations

ATC	Advisory Technical Committee (of the ESRB)
BBM	Borrower-based measure
BCL	Banque centrale du Luxembourg
BE	Belgium
BTL	Buy-to-let
CCyB	Countercyclical capital buffer
COVID-19	Coronavirus disease 2019
CRS	Comité du Risque Systémique
CRR	Capital Requirements Regulation – **Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1)**
DK	Denmark
DNB	De Nederlandsche Bank
DSTI	Debt service-to-income
DTI	Debt-to-income
ECB	European Central Bank
EEA	European Economic Area
ESRB	European Systemic Risk Board
EU	European Union
FC	Fully compliant
FI	Finland
FIN-FSA	Finnish Financial Supervisory Authority
IE	Insufficiently explained
LC	Largely compliant
LU	Luxembourg
LTV	Loan-to-value
LTC	Loan-to-collateral
MNC	Materially non-compliant
NBB/BNB	Nationale Bank van België/Banque Nationale de Belgique
NC	Non-compliant
NL	The Netherlands
OJ	Official Journal of the European Union
PC	Partially compliant
RRE	Residential real estate
SE	Sufficiently explained
SE	Sweden

Annex III: Implementation standards for country-specific Recommendations

The implementation standards for country-specific Recommendations will be published as a separate document.

Imprint and acknowlegements

This compliance report is based on the results of an assessment conducted by the Assessment Team and was prepared by:

Fátima Silva
Banco de Portugal

Francesco Caloia
De Nederlandsche Bank

Simon Dagrain
Commission de Surveillance du Secteur Financie

Zouchair Kechoute
Banque centrale du Luxembourg

Martin Kotlář
Česká národní banka

Vítor Oliveira
Banco de Portugal

Daniela Soares Martins
Banco de Portugal

Maria Vergeti
Bank of Greece

Jari Friebel
ESRB Secretariat

Aleksandra Granat
ESRB Secretariat

Hana Hejlová
ESRB Secretariat

Tuomas Peltonen
ESRB Secretariat

Frauke Skudelny
ESRB Secretariat

Amanda Trinh
ESRB Secretariat

Stamatis Vasilakos
ESRB Secretariat

Postal address	60640 Frankfurt am Main, Germany
Telephone	+49 69 1344 0
Website	**www.esrb.europa.eu**

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

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