



**ESRB**

European Systemic Risk Board

European System of Financial Supervision

**ECB-CONFIDENTIAL**

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ESRB/2019/0166

**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)**

Dear Mr De Croo,

This is to inform you that on 27 June 2019, the General Board of the European Systemic Risk Board (ESRB) adopted Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential estate sector in Belgium (hereinafter "Recommendation ESRB/2019/4"). The General Board of the ESRB also adopted five other country-specific ESRB Recommendations, addressed to five other Member States that also received ESRB Warnings in 2016, on medium-term vulnerabilities in their respective residential real estate sector. Furthermore, on the same date, the General Board of the ESRB also adopted five country-specific ESRB Warnings, addressed to Member States in which vulnerabilities relating to the residential real estate sector as a source of systemic risk have been newly identified as not being sufficiently addressed.

Vulnerabilities relating to the residential real estate can be a source of systemic risk and may affect financial stability both directly and indirectly. In 2016, the ESRB conducted a Union-wide assessment of the vulnerabilities relating to residential real estate<sup>1</sup>. This assessment enabled the ESRB to identify a number of medium-term vulnerabilities in several countries as sources of systemic risk to financial stability, which led to

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<sup>1</sup> See 'Vulnerabilities in the EU Residential Real Estate Sector', ESRB, November 2016, available on the ESRB's website at [www.esrb.europa.eu](http://www.esrb.europa.eu).

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the issuance of warnings to eight countries: Belgium<sup>2</sup>, Denmark<sup>3</sup>, Luxembourg<sup>4</sup>, the Netherlands<sup>5</sup>, Austria<sup>6</sup>, Finland<sup>7</sup>, Sweden<sup>8</sup> and the United Kingdom<sup>9</sup>.

In 2016 the main vulnerabilities identified in the residential real estate market in Belgium were the rapid growth in both house prices and mortgage loans, as well as the already high and increasing household indebtedness, with an increasing share of mortgagors being potentially vulnerable to adverse economic conditions or developments in the residential real estate market in Belgium.

The ESRB has recently concluded a systematic and forward-looking European Economic Area (EEA)-wide assessment of vulnerabilities relating to residential real estate. As regards Belgium, this recent assessment has revealed that since 2016, strong growth in housing credit has continued to fuel household indebtedness. Despite the fact that the growth in house prices has decelerated, the previous dynamics raise concerns about potential overvaluation. Moreover, a significant share of mortgage loans continue to be provided to households that are potentially vulnerable to adverse economic or financial conditions or adverse developments in the residential real estate market.

The risk weight add-on that is currently in place in Belgium pursuant to Article 458 of Regulation (EU) No 575/2013<sup>10</sup>, aims to increase the resilience of credit institutions that use the IRB approach, and to mitigate the build-up of risks related to new mortgage loans. However, there are currently no borrower-based measures (e.g. limits to the loan-to-value (LTV) ratio, the debt-to-income (DTI) ratio or the debt service-to-income (DSTI) ratio) in place in Belgium that would directly limit the share of mortgage loans provided to households which are potentially vulnerable to adverse economic or financial conditions or adverse developments in the residential real estate market.

The General Board of the ESRB, having assessed the results of the risk and policy analyses carried out, has concluded that the macroprudential measures that are in place or available in Belgium are partially appropriate and partially sufficient to address the vulnerabilities related to household indebtedness, overvaluation of house prices and lending standards in the medium term. Consequently, further policy action is required to address these vulnerabilities, which can be a source of systemic risk.

<sup>2</sup> Warning ESRB/2016/06 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Belgium (OJ C 31, 31.1.2017, p. 45).

<sup>3</sup> Warning ESRB/2016/07 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Denmark (OJ C 31, 31.1.2017, p. 47).

<sup>4</sup> Warning ESRB/2016/09 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Luxembourg (OJ C 31, 31.1.2017, p. 51).

<sup>5</sup> Warning ESRB/2016/10 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of the Netherlands (OJ C 31, 31.1.2017, p. 53).

<sup>6</sup> Warning ESRB/2016/05 of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of Austria (OJ C 31, 31.1.2017, p. 43).

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

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

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

<sup>10</sup> 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).

For this reason, the General Board of the ESRB decided to issue a Recommendation to Belgium on medium-term vulnerabilities in its residential real estate sector. The purpose of Recommendation ESRB/2019/4 is to recommend the activation of legally binding borrower-based measures to address the significant share of mortgage loans provided to households that are potentially vulnerable to adverse economic or financial conditions or adverse developments in the residential real estate market in Belgium. The measures proposed in Recommendation ESRB/2019/4 are intended to complement the existing macroprudential measures in Belgium, with the aim of strengthening resilience. Accordingly, the measures proposed in Recommendation ESRB/2019/4 should not be considered as substitutes for the existing capital-based measures, which remain important in order to address existing vulnerabilities in the outstanding loan portfolio.

In line with Article 18(2) of Regulation (EU) No 1092/2010<sup>11</sup>, I would hereby like to inform you that Recommendation ESRB/2019/4 will be published on the ESRB's website and later in the *Official Journal of the European Union*. In addition, in line with Article 18(3) of Regulation (EU) No 1092/2010, addressees of public recommendations have the right to make public their views and reasoning on the matter. Should you wish to utilise this right, you are kindly invited to submit to the ESRB Secretariat any views and reasoning that you may have on the matter by 9 September 2019.

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

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

Yours sincerely,



Francesco Mazzaferro

Head of the ESRB Secretariat

*Enclosed:*

*Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential estate sector in Belgium (ESRB/2019/4)*

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<sup>11</sup> Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).

