

Mr. Francesco Mazzaferro
Head of ESRB Secretariat
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Brussels, 9 September 2019

Dear Mr Mazzaferro,

The National Bank of Belgium (NBB) would first like to thank the ESRB for the in-depth analysis of vulnerabilities related to residential real estate conducted for the whole EU. As rightly mentioned in the text of the Recommendation, such vulnerabilities can be a source of systemic risk and they may affect financial stability both directly and indirectly. It is thus of utmost importance to take the necessary macroprudential actions in a timely manner when evidence is building that systemic risks might be increasing.

The NBB shares the ESRB's concerns and agrees with the conclusions of the ESRB risk analysis for Belgium. While stock risks remain prominent, flow risks have intensified (e.g. in the form of persistently dynamic credit granting accompanied by loose credit standards), reinforcing the more structural vulnerabilities. In this regard, in its most recent macroprudential report, the NBB called for a substantial decrease in the share of risky mortgage loans (together with a correct and risk-based pricing of these loans).

Based on these observations and even though a marked correction on the Belgian residential real estate market is not part of the NBB baseline scenario for the years to come, the NBB primarily aims at ensuring that Belgian banks are sufficiently resilient to face potential higher-than-expected losses. In this respect, the NBB introduced in 2018 a new capital-based macroprudential measure (building on a previous measure) that further raised (macroprudential) capital buffers to be held by banks while providing an incentive to apply sound lending standards, through a specific component targeted to higher risk weights. In this regard, the NBB concurs with the ESRB recommendation stating that potential new measures should be *complementing existing macroprudential measures, aiming at strengthening resilience, and should not be considered as substitutes for these existing capital-based measures as they remain important to address existing vulnerabilities in the outstanding loan portfolio.*

As regards the recommendation for further policy action, the NBB takes good note of it and is looking into the different options on the table, with the different stakeholders concerned, to guide institutions back to sounder lending standards. As announced by the NBB on 5 September 2019, this guidance will take the form, at least as a first step, of supervisory expectations regarding the application of prudent credit standards in the internal policies of the financial institutions concerned. Such application, from 2020 onwards, would eventually reduce the share of riskier loans in the financial institutions' new production of mortgage loans in Belgium.

As requested in the text of the Recommendation, the NBB will provide, at the latest on 31 October 2020, a first report of all actions taken in response to ESRB recommendation 2019/4.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'P' and 'W' followed by a large, sweeping flourish.

Pierre Wunsch