



ECB-CONFIDENTIAL

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ESRB/2019/0170

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)

Dear Mr Lintilä,

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 Finland (hereinafter "Recommendation ESRB/2019/8"). 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 estate¹. 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 the issuance of warnings to eight countries: Belgium², Denmark³, Luxembourg⁴, the Netherlands⁵, Austria⁶, Finland⁷, Sweden⁸ and the United Kingdom⁹.

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- ¹ See 'Vulnerabilities in the EU Residential Real Estate Sector', ESRB, November 2016, available on the ESRB's website at www.esrb.europa.eu.
- ² 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).
- ³ 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).
- ⁴ 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).

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In 2016 the main vulnerability identified in the residential real estate market in Finland was high and increasing household indebtedness, with a significant share of households being potentially vulnerable to adverse economic or financial conditions or adverse developments in that market.

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 Finland, this recent assessment has revealed that household indebtedness is higher than it was in 2016. Recently, this increase has partly been accounted for by loans taken out by housing companies and then repaid from the income of households and other investors holding shares in these companies. In addition, newly available evidence regarding lending standards for new mortgage loans supports previous evidence of the potential vulnerability of a significant share of households taking out new mortgage loans to adverse economic or financial conditions or adverse developments in the residential real estate market.

Despite the borrower- and capital-based measures that were recently introduced or tightened by the Finnish national authorities, and the reduction of the tax deductibility of mortgage interest expenses, and except for the limit that applies to the LTV ratio, other legally binding borrower-based measures, namely limits that apply to the debt-to-income (DTI) ratio, the debt-service-to-income (DSTI) ratio and, maturity limits, are still not available in Finland. Such measures may be necessary in the medium term if vulnerabilities related to household indebtedness continue to increase. Activating limits that apply to either the DTI ratio or the DSTI ratio, in combination with maturity limits, would increase the effectiveness of the existing macroprudential measures that are already in place in Finland. Furthermore, the LTV ratio is currently defined in a manner that allows assets other than real estate assets to be considered as collateral.

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 Finland are partially appropriate and partially sufficient to address the vulnerabilities related to household indebtedness in the medium term. Consequently, further policy action is required to address these vulnerabilities, which can be a source of systemic risk.

For this reason, the General Board of the ESRB decided to issue a Recommendation to Finland on medium-term vulnerabilities in its residential real estate sector. The purpose of Recommendation ESRB/2019/8 is to recommend the inclusion in Finnish law of additional legally binding borrower-based measures, as well as the adoption of such measures to prevent the vulnerabilities related to household indebtedness from increasing. The measures proposed in Recommendation ESRB/2019/8 are aimed at complementing the existing macroprudential measures in Finland.

⁵ 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).

⁶ 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).

⁷ 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).

⁸ 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).


⁹ 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).

In line with Article 18(2) of Regulation (EU) No 1092/2010¹⁰, I would hereby like to inform you that Recommendation ESRB/2019/8 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.

Please also 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:

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¹⁰ 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).

