



M. Francesco Mazzaferro
Head of the ESRB Secretariat
European Systemic Risk Board
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Ref. : 82dxd857

Luxembourg, September 9, 2019

Dear Mr Mazzaferro,

I am writing to you to share my views on the *Recommendation of the European Systemic Risk Board (ESRB) of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Luxembourg* (Recommendation ESRB/2019/6).

In its recently concluded European Economic Area-wide assessment of vulnerabilities relating to residential real estate, the ESRB highlights that strong growth in mortgage loans has continued to fuel household indebtedness since 2016 in Luxembourg. According to the aforementioned ESRB Recommendation, vulnerabilities linked to the growth in both house prices and mortgage loans would argue in favor of the activation of macroprudential borrower-based measures, as well as for the consideration of policy actions going beyond macroprudential policy.

The Luxembourg authorities have already taken action over the past years to address potential vulnerabilities in the real estate market:

As of 2016, the *Commission de Surveillance du Secteur Financier* (CSSF), following recommendations issued by the national macroprudential authority – the *Comité du risque systémique* (CdRS) -, has introduced capital-based measures in order to further strengthen capital requirements linked to real estate loans (CSSF circular 16/643). The CSSF has also taken measures that aim at reinforcing banks' capital positions, thus enabling banks to better withstand adverse movements linked to the economic cycle (CSSF Regulation 18-07). Finally, the level of the countercyclical capital buffer which presently stands at 0% will be increased to 0.25%, applicable starting Q1 2020 (CSSF Regulation 19-07). The CdRS will continue to assess the necessity to adapt the buffer rate.

Recognizing that borrower-based tools are an important element of a fully-fledged macroprudential framework, the Luxembourg Government has, in line with the ESRB Recommendation, introduced in December 2017 a draft bill to Parliament aiming at the



introduction of a legal framework for borrower-based measures (draft bill n°7218). The Government has recently proposed amendments to the aforementioned draft bill in order to address the objections raised by the State Council. Once the draft bill has been adopted, the authorities will carefully consider whether, in light of the most recent developments and mindful of the specificities of the Luxembourg real estate sector, an activation of the borrower-based measures is warranted. Pending the establishment of the framework for legally binding borrower-based measures, the authorities will continue to assess whether the recourse to alternative measures might be necessary.

The authorities, under the lead of the CdRS, are closely following the developments in the Luxembourg real estate sector, have been implementing appropriate macroprudential policy responses, and have been associated to the elaboration of the draft bill n°7218. They will continue to play an active role in monitoring existing measures and defining most appropriate policy responses to address the build-up of systemic risks, in particular in the area of residential real estate.

The ESRB has also identified structural factors that may have driven vulnerabilities in the Luxembourg real estate sector, notably the lack of housing supply, and taxation measures that – although initially established to ease housing affordability – may, according to the ESRB, act as an incentive for households to overborrow. In line with the coalition agreement, the Government is considering policies that aim at increasing the supply of affordable housing.

You may rest assured that the Luxembourg authorities will remain vigilant to the medium-term vulnerabilities identified by the ESRB and will continue to closely monitor developments in the residential real estate sector in Luxembourg. The Luxembourg authorities will keep the ESRB informed about any further measures taken.

I would appreciate this letter being published, in accordance with Article 18(3) of Regulation (EU) No 1092/2010, on the website of the ESRB alongside the publication of Recommendation ESRB/2019/6.

A handwritten signature in black ink, appearing to read 'Gramegna', with a stylized flourish at the end.

Pierre Gramegna
Minister of Finance