



Rt Hon Philip Hammond MP
Chancellor of the Exchequer
HM Treasury
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United Kingdom

Copy to: Dr. Mark Carney, Chairman of the Financial Policy
Committee, Bank of England, Threadneedle Street, London,
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Francesco Mazzaferro

Confidential transmission of ESRB Warning on medium-term vulnerabilities in the residential real estate sector of the United Kingdom

Dear Mr Hammond,

I am addressing this letter to you on behalf of the General Board of the European Systemic Risk Board (ESRB). In order to contribute to the prevention or mitigation of systemic risks to financial stability in the European Union, the ESRB shall issue warnings or, where it deems it appropriate to suggest specific remedial action, recommendations, when significant risks are identified.

The ESRB has recently concluded a systematic and forward-looking Union-wide assessment of vulnerabilities relating to residential real estate. In this context, the ESRB has identified in eight countries certain medium-term vulnerabilities as a source of systemic risk to financial stability, which may have the potential for serious negative consequences for the real economy. Consequently, the ESRB has decided on 22 September 2016 to issue warnings to eight Member States of the European Union including the United Kingdom and intends to make them public pursuant to the modalities foreseen in Regulation (EU) No 1092/2010.

With regard to the United Kingdom, currently there is a high degree of uncertainty about the medium-term outlook for the UK housing market. However, from a macroprudential perspective, the ESRB considers there to be risks under different housing market scenarios – either through the crystallisation of accumulated vulnerabilities, particularly related to household indebtedness and the interaction with elevated residential real estate prices, or through the further build-up of vulnerabilities. The appropriate policy response is likely to differ between these two scenarios. Therefore, it will be important for the UK

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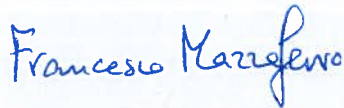
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authorities to monitor developments closely and adjust macroprudential policy as necessary in light of them.

Further details can be found in the attached warning and the supporting ESRB vulnerability assessment, which reflects developments up to mid-September 2016.

I trust that the authorities in the United Kingdom will remain vigilant to the identified risks. I am at your disposal to discuss any questions you may have related to this warning.

Yours sincerely,



Francesco Mazzaferro

Head of the ESRB Secretariat, on behalf of the General Board of the ESRB

Encl. Warning of the European Systemic Risk Board of 22 September 2016 on medium-term vulnerabilities in the residential real estate sector of the United Kingdom (ESRB/2016/12); ESRB residential real estate vulnerability assessment for the United Kingdom