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BETREFF **Views of the German Federal Ministry of Finance on the warning of the ESRB on medium-term vulnerabilities in the residential real estate sector in Germany (ESRB/2019/11)**

GZ **VII C 1 - WK 3721/19/10001 :002**
DOK **2019/0576758**

(bei Antwort bitte GZ und DOK angeben)

Dear Mr. Mazzaferro,

Thank you for your letter of 10 July 2019 notifying me of the European Systemic Risk Board's (ESRB) warning regarding its assessment of medium-term vulnerabilities in the residential real estate sector in Germany. In particular, concerns are expressed regarding overvaluations of residential real estate prices in urban areas and their implications for collateral values, as well as uncertainties surrounding lending standards for newly granted housing loans.

We welcome the analysis and we will continue to support the ESRB's work on monitoring and mitigating systemic risks to financial stability. We will continue to monitor the German housing market closely.

The German Financial Stability Committee (FSC) and its member institutions have already acted to manage potential financial stability risks. The Federal Financial Supervisory Authority (BaFin) has activated the domestic countercyclical capital buffer (CCyB) as of the third quarter of 2019 and increased the buffer rate to 0.25 %, following a recommendation by the FSC. In its recommendation the FSC assessed that, in the current economic setting, the build-up of cyclical systemic risks has created a threat to financial stability. Three risk areas have been identified, of which cyclical risks related to the stock of loans for real estate purposes are part. It is expected that the activation of the CCyB will increase the resilience of the banking sector to potential losses resulting from, for example real estate lending.

Seite 2 Therefore the activation of the CCyB reduces the likelihood that banks would curb the flow of funding to the real economy in such a scenario.

As also mentioned in the ESRB's analysis, there are important factors mitigating potential risks to financial stability from the residential real estate sector. Household indebtedness relative to GDP is below the euro area average, and credit growth related to residential real estate is not exceptionally high in Germany. As a consequence, vulnerabilities stemming from household indebtedness or from the flow of newly granted loans related to residential real estate are likely to be rather limited.

Nevertheless, if indicators point increasingly to risks resulting from the flow of newly granted loans for residential real estate purposes, the German FSC and its members will stand ready to take adequate macroprudential action. In 2017 a legal basis was created for a loan-to-value limit and for an amortisation requirement. The Federal Ministry of Finance is currently carrying out an evaluation exercise on these macroprudential tools. This evaluation exercise will also cover the need to expand the current macroprudential toolbox.

Regarding potential uncertainties surrounding lending standards in Germany and in light of the ESRB's recommendation to close real estate data gaps (ESRB/2016/14), the German FSC and its member institutions are fully aware of the need to improve the availability of data on credit standards for housing loans. Accordingly, the FSC is implementing a comprehensive strategy to address data gaps. This strategy includes short-term components such as an ad-hoc survey which has already been started, as well as options to regularise data requests aimed at creating a data basis on housing loans' credit standards in the medium term. At least in the longer run, we expect that such a data basis will be coordinated in a consistent and harmonised manner by means of a pan European approach.

Finally, let me point out that the German government is addressing rising real estate prices by implementing a comprehensive housing strategy ("Wohnraumoffensive"). The strategy aims to create 1.5 million new apartments and houses in Germany and encompasses measures in order to stimulate investment in house building, safeguard affordable housing and reduce building costs.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Jörg Meibohm". The signature is written in a cursive style with a large initial "J" and "M".