



**ECB-CONFIDENTIAL**

Ms Siv Jensen  
Minister of Finance  
Ministry of Finance  
Postboks 8008 Dep  
0030 Oslo  
Norway

10 July 2019  
ESRB/2019/0175

**Warning of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Norway (ESRB/2019/14)**

Dear Ms Jensen,

This is to inform you that on 27 June 2019, the General Board of the European Systemic Risk Board (ESRB) adopted Warning of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Norway (hereinafter "Recommendation ESRB/2019/14"). The General Board of the ESRB also adopted four other country-specific ESRB Warnings, addressed to four other Member States in which vulnerabilities relating to the residential real estate sector as a source of systemic risk have also been newly identified as not being sufficiently addressed. Furthermore, on the same date, the General Board of the ESRB adopted country-specific ESRB Recommendations to six Member States that received country-specific ESRB Warnings in 2016 on medium-term vulnerabilities in their respective residential real estate sector, and in which vulnerabilities relating to the residential real estate sector as a source of systemic risk are still 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 estate<sup>1</sup>. 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: Belgium<sup>2</sup>, Denmark<sup>3</sup>, Luxembourg<sup>4</sup>, the Netherlands<sup>5</sup>, Austria<sup>6</sup>, Finland<sup>7</sup>, Sweden<sup>8</sup> and the United Kingdom<sup>9</sup>.

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- <sup>1</sup> See 'Vulnerabilities in the EU Residential Real Estate Sector', ESRB, November 2016, available on the ESRB's website at [www.esrb.europa.eu](http://www.esrb.europa.eu).
- <sup>2</sup> 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).
- <sup>3</sup> 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).

**Address**  
ESRB  
Sonnemannstrasse 20  
60314 Frankfurt am Main  
Germany

**Postal address**  
ESRB  
60640 Frankfurt am Main  
Germany

Tel.: +49 69 1344 0  
E-mail: [esrbsecretariat@esrb.europa.eu](mailto:esrbsecretariat@esrb.europa.eu)  
[www.esrb.europa.eu](http://www.esrb.europa.eu)

The ESRB has recently concluded a systematic and forward-looking European Economic Area (EEA)-wide assessment of vulnerabilities relating to residential real estate. As a result of this assessment, the ESRB has identified certain medium-term vulnerabilities in the residential real estate sector in Norway as a source of systemic risk to financial stability, that have not been sufficiently addressed and which may have the potential for serious negative consequences for the real economy. From a macroprudential perspective, the ESRB considers the main vulnerability to be high household indebtedness associated with the long-term increase of house prices and their potential overvaluation.

The General Board of the ESRB, having assessed the results of the risk and policy analyses carried out, has concluded that the current macroprudential policy measures that are in place in Norway are appropriate to mitigate the identified systemic risks related to vulnerabilities in the residential real estate sector in Norway. However, there is still considerable systemic risk related to the Norwegian residential real estate market, and on these grounds the macroprudential policy is assessed to be partially sufficient. For this reason, the General Board of the ESRB decided to issue a Warning to Norway on medium-term vulnerabilities in its residential real estate sector.

In line with Article 18(2) of Regulation (EU) No 1092/2010<sup>10</sup>, I would hereby like to inform you that Warning ESRB/2019/14 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 warnings 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.

The ESRB intends to monitor the risks identified in Warning ESRB/2019/14 and invites Norway to provide information, within one year from the publication of Warning ESRB/2019/14 in the *Official Journal of the European Union*, on the evolution of the vulnerabilities identified and on any policy measures that may have been taken in Norway in order to address these vulnerabilities. In this regard, while the ESRB acknowledges the comprehensive set of policy measures within the area of macroprudential policy, these policy measures could be complemented by broader policy action aimed at the mitigation or elimination of the factors which facilitate or promote increasing household indebtedness. These policies should support the current macroprudential measures to address the remaining vulnerabilities identified in the residential real estate market in Norway efficiently and effectively, without producing excessive costs for the Norwegian real

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<sup>4</sup> 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).

<sup>5</sup> 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).

<sup>6</sup> 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).

<sup>7</sup> 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).

<sup>8</sup> 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).

<sup>9</sup> 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).

<sup>10</sup> 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).

economy and financial system. Further policies could include removing incentives for higher household indebtedness, by increasing efficiency in the rental housing market and the development of owner-occupied housing, and by ensuring adequate housing supply. If no other policy action is taken and if the vulnerabilities do not recede, or if they increase due to economic and financial developments, existing macroprudential measures could be tightened or new macroprudential measures could be activated.

Moreover, when activating any measures to address the identified vulnerabilities, their calibration and phasing-in should take into account the position of Norway in the economic and financial cycles, and any potential implications as regards the associated costs and benefits.

Please also note that the following reports, adopted by the ESRB on 27 June 2019, will be made available electronically:

- "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:*

*Warning of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential estate sector in Norway (ESRB/2019/14)*

