EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Christine LAGARDE
President

Mr Marco Zanni
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 June 2020

L/CL/20/167

Re: Your letter (QZ-028)

Honourable Member of the European Parliament, dear Mr Zanni,

In your letter on systemic risk in the Dutch real estate market, which was passed on by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, to Mr Andrea Enria, accompanied by a cover letter dated 15 April 2020, you raised questions relating to the ECB's tasks in the area of macroprudential policy. The Chair of the Supervisory Board has therefore forwarded your letter to me.

On the basis of the macroprudential competences conferred upon the ECB by Article 5 of the Single Supervisory Mechanism (SSM) Regulation, the ECB closely monitors real estate risks from a systemic risk perspective. Under this Regulation, national authorities retain the power to activate and implement macroprudential measures, while the ECB assesses the appropriateness of such measures, to which it can object. In addition, the ECB has the power to top up, i.e. apply stricter requirements to those macroprudential instruments on which it has been granted competence under EU law. This mainly concerns capital-based instruments, while borrower-based instruments are within the competence of national authorities.

The ECB's framework for assessing real estate risks and designing macroprudential policy responses is explained in detail in the March 2019 issue of the ECB's Macroprudential Bulletin, and on this basis the ECB regularly analyses developments in the real estate market.[1] De Nederlandsche Bank in October 2019 announced its intention to introduce a floor for mortgage portfolio risk weights to strengthen the resilience of the banking sector, which was supported by the ECB. Following the outbreak of the coronavirus (COVID-19)

[1] See Lo Duca, Marco, Pirovano, Mara, Rusnák, Marek and Tereanu, Eugen, "Macroprudential analysis of residential real estate markets", *Macroprudential Bulletin*, No 7, ECB, Frankfurt am Main, 27 March 2019.

pandemic, the central bank decided to postpone the introduction of the floor and to lower systemic capital buffers in order to temporarily provide banks with additional leeway to continue business lending and absorb potential losses.[2] These macroprudential decisions were also supported by the ECB.

In monitoring macroprudential vulnerabilities, the ECB also benefits from the work of the European Systemic Risk Board (ESRB), which is responsible for the macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risk. In September 2019 the ESRB issued a recommendation to the Netherlands, as well as five other countries, relating to residential real estate vulnerabilities.[3] The ECB supported this recommendation. The Dutch authorities, i.e. the Central Bank and Dutch Ministry of Finance, publically discussed the main vulnerabilities highlighted by the ESRB.[4]

Linked to your question on the debt exposure of the non-financial private sector more generally, and whether it exposes the Netherlands to other systemic risks (than real estate related risks), it should be noted that the debt position of non-financial corporations (at 158.2% of GDP at end-2019) also reflects the significant role of multinational companies in the Dutch economy.

Complementing the steps taken by the Dutch authorities, ECB Banking Supervision closely monitors risks at euro area banks arising from easing lending standards, including in exposures to real estate. In May 2019 the ECB, supported by national competent authorities of the SSM, launched a dedicated collection of data on new loans, covering the loan granting activities (key risk indicators, risk parameters and loan characteristics) of significant institutions in the period 2016-18 for different lending portfolios.[5] Aggregated results have been published on 10 June 2020.[6] Follow-up assessments to better understand the risks in the context of the situation of each bank are being carried out by banking supervisors, which will lead, where necessary, to specific supervisory measures. The ECB considers good lending standards key for the health of banks and this is particularly relevant in times of stress such as the current outbreak of the COVID-19 crisis.

Yours sincerely,
[signed]

Christine Lagarde

---

[2] See "DNB lowers bank buffers to support lending", *press release*, De Nederlandsche Bank, 17 March 2020.

[3] See Recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in the Netherlands (ESRB/2019/7).

[4] See the response to the ESRB Recommendation available on the ESRB's website.

[5] The portfolios covered were residential real estate, credit for consumption, and loans to the non-financial corporate sector, encompassing commercial real estate loans and loans to small- and medium-sized enterprises, corporates and large corporates.

[6] See "Trends and risks in credit underwriting standards of significant institutions in the Single Supervisory Mechanism", ECB, Frankfurt am Main, June 2020.

Address
European Central Bank
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Postal address
European Central Bank
60640 Frankfurt am Main
Germany

Tel: +49-69-1344-0
Fax: +49-69-1344-7305
Website:www.ecb.europa.eu