



Mr Christian Lindner
Minister of Finance
Federal Ministry of Finance
Wilhelmstrasse 97
10117 Berlin
Germany

ECB-PUBLIC
ESRB/2021/0111

Copy to:

Mr Jens Weidmann, President, Deutsche Bundesbank
Wilhelm-Epstein-Strasse 14, 60431 Frankfurt am Main, Germany

9 December 2021

Recommendation of the European Systemic Risk Board of 2 December 2021 on medium-term vulnerabilities in the residential real estate sector in Germany (ESRB/2021/10)

Dear Mr Lindner,

This is to inform you that, on 2 December 2021, the General Board of the European Systemic Risk Board (ESRB) adopted a set of country-specific Recommendations and Warnings on medium-term vulnerabilities in the residential real estate (RRE) sector in seven countries, including Recommendation ESRB/2021/10 on medium-term vulnerabilities in the residential real estate sector in Germany.

The General Board of the ESRB decided to issue those Recommendations and Warnings, following a systematic and forward-looking European Economic Area-wide assessment of vulnerabilities relating to the residential real estate sector. The Recommendations are addressed to countries that received ESRB warnings in 2016 and 2019 and in which vulnerabilities related to the residential real estate as a source of systemic risk have not been sufficiently addressed, while the Warnings to countries in which vulnerabilities relating to the residential real estate as a source of systemic risk have been newly identified as not being sufficiently addressed.

As regards Germany, this recent assessment has revealed that the main vulnerabilities are house price overvaluation with a high house price growth, as well as signs of a loosening of lending standards, all coupled with significant data gaps hindering a comprehensive analysis.

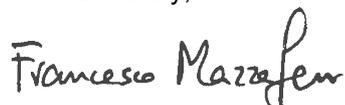
As the current macroprudential policy mix is considered only partially appropriate and partially sufficient to address the increasing vulnerabilities, the ESRB has concluded that borrower-based measures, in particular the loan-to-value (LTV) ratio measure, should be activated to target medium-term vulnerabilities in the RRE sector in Germany. At the same time, and to complement LTV ratio measure, capital-based measures, such as activating the countercyclical capital buffer or the sectoral systemic risk buffer, would increase the resilience of the banking sector in Germany against the RRE vulnerabilities that might have already accumulated, given

the prevailing overvaluation of house prices and uncertainty about lending standards for mortgage loans provided in recent years. Moreover, an appropriate combination with legally binding or, if that is not possible under German law, non-legally binding income-related instruments could increase the effectiveness of the limit on the LTV ratio in addressing any vulnerabilities relating to the financing of RRE. Therefore, the German legal framework for borrower-based measures should be complemented by income-based instruments and adapted accordingly so as to allow the activation of borrower-based measures in a more timely manner, thus avoiding the build-up of vulnerabilities.

Recommendation ESRB/2021/10 on medium-term vulnerabilities in the residential real estate sector in Germany is being transmitted to your authority, in accordance with Article 16(2) of Regulation (EU) 1092/2010. Please note that addressees are required to communicate the actions undertaken in response to the Recommendation and to substantiate any inaction, under Article 17(1) of Regulation (EU) 1092/2010. The ESRB Secretariat will provide your authority with the relevant reporting template in due course ahead of the reporting deadline.

In line with Article 18(2) of Regulation (EU) No 1092/2010, I would hereby also like to inform you that Recommendation ESRB/2021/10 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 recommendations 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 24 January 2022.

Yours sincerely,



Francesco Mazzaferro
Head of the ESRB Secretariat

Enclosed:

Recommendation ESRB/2021/10 on medium-term vulnerabilities in the residential real estate sector in Germany.