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ESRB publishes follow-up report on residential real estate sector vulnerabilities

The European Systemic Risk Board (ESRB) has today published a follow-up [report on vulnerabilities in the residential real estate \(RRE\) sectors of European Economic Area \(EEA\) countries](#). The ESRB assesses vulnerabilities in the RRE sectors regularly because of their importance for financial and macroeconomic stability. In 2016, 2019 and 2021, the ESRB conducted systematic, forward-looking assessments of such vulnerabilities in the EEA. The most recent assessment focuses on changes in financial stability risks related to RRE markets and macroprudential policy responses adopted since the last assessment at the end of 2021.

The analysis shows that the level of accumulated vulnerabilities remains significant in most EEA countries. So far, the levelling off in the RRE markets has been too short-lived to bring down the level of accumulated risks, or “stock risks”, significantly. However, the growth of cyclical risks has decelerated or stopped in most EEA countries. Altogether, the results of the risk assessments for stock risks and overall risk, which also accounts for cyclical risks, are the same as in 2021 for all EEA countries.

Forward-looking risk assessments remain scenario-dependent, as uncertainty is high. In a baseline scenario, such as the European Commission’s Autumn 2023 Economic Forecast, an orderly correction of RRE prices and reduction in loan growth may continue in the next few quarters. This could be beneficial for financial stability in the long run. However, over the medium term, economic growth is expected to pick up and inflation is expected to moderate in most EU countries. As a result, the ongoing correction of RRE prices and reduction in loan growth may revert and RRE vulnerabilities may start building up again in the medium term. To avoid such a build-up, national authorities would need to be ready to activate all necessary macroprudential tools. In an adverse scenario, for instance, with stagnating growth and increased interest rates for mortgage loans, rising unemployment coupled with persistently high inflation could make it harder for households to pay back their housing loans. Because the EU banking system has proven resilient, sizeable losses in bank mortgage portfolios are unlikely unless a major correction occurs, including adverse developments in labour markets. However, household consumption and confidence are both key indirect channels through which RRE risks may initially materialise. Risks are more prevalent in countries that are subject to more significant risk from adverse macroeconomic developments, high levels of household indebtedness and a large proportion of variable interest rate loans, which can make households more vulnerable to interest rate changes.

Since 2021 several countries have been activating macroprudential policies to mitigate risks related to RRE markets and increase lender and borrower resilience. In particular, a number of countries have continued to build, or rebuild, capital buffers by either increasing countercyclical capital buffer rates or introducing a sectoral systemic risk buffer. A few countries have also acted by using borrower-based measures, switching from recommended measures to legally binding ones, or introducing new measures or recommendations.

The policy assessment concludes with only a few changes compared with 2021. The macroprudential policy mix in five countries that previously received ESRB Recommendations (Austria and Finland) or Warnings (Hungary, Liechtenstein and Slovakia) is now regarded as fully appropriate and sufficient, compared with partially appropriate and partially sufficient in the previous assessment. For the other EEA countries included in the policy analysis in 2021, the policy assessment remains unchanged. This means that policies are regarded as partially appropriate and partially sufficient in Bulgaria, Croatia, Denmark, Germany and Luxembourg, and appropriate but partially sufficient in the Netherlands and Sweden. In all countries that have been newly added to the policy analysis this year, policies are assessed as fully appropriate and sufficient (Cyprus, Greece, Italy, Latvia, Romania and Spain). The assessment of vulnerabilities is based on available data and covers developments up to mid-November 2023.

The ESRB continues to exercise its mandate of macroprudential oversight of the financial system in the EU Member States and Iceland, Liechtenstein and Norway, including identifying financial stability vulnerabilities related to real estate. The ESRB will continue to issue warnings if a significant systemic risk to financial stability is identified and, where appropriate, will issue recommendations for remedial action.

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