



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

COURTESY TRANSLATION

Mario DRAGHI
President

Mr Marco Zanni and Mr Marco Valli
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 7 June 2016

L/MD/16/288

Re: Your letter (QZ-054)

Honourable Members of the European Parliament, dear Mr Zanni, dear Mr Valli,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 29 April 2016.

The European Central Bank (ECB) and national authorities closely monitor property markets in the context of their respective financial stability mandates. In order to comprehensively assess risks in property markets, the ECB reviews indicators of potential vulnerabilities. These indicators include lending conditions and property price dynamics. The ECB's analysis also includes additional factors, such as household balance sheets, exposures of banks to real estate markets, developments in the construction sector and connected activities, and makes use of models to gauge property price overvaluation or undervaluation. The aim of this assessment is to identify risks at an early stage and to gauge the resilience of both banks and households to potential adverse developments in housing markets.

Concerning the evolution of credit standards, according to the information reported by national authorities and the information collected directly by the ECB, while progressive easing is observed, banks take full consideration of borrowers' creditworthiness when granting credit. This also reflects the strengthening of the legal framework in recent years, which has brought a higher level of consumer protection and the obligation to assess consumer creditworthiness, for example through the Mortgage Credit Directive. In this context, it is also important to note that households' balance sheets so far appear sound and household debt in relation to

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GDP remains stable in the three countries that you mention in your letter. Nevertheless, in cooperation with national authorities, the ECB keeps the evolution of lending conditions under close scrutiny. Let me also add that according to the ECB's analysis, banks are well capitalised.

With regard to house price dynamics and their sustainability, a broader set of factors affecting both the supply of, and demand for, housing has to be taken into account beyond the potential impact of monetary policy. Without any specific attribution to a particular country, examples of such factors are immigration developments and fiscal factors such as changes in mortgage interest deductibility.

Finally, you ask about potential action, should worrying developments be clearly identified in specific countries. I can confirm that appropriate action would be taken, either by the competent national authorities or the ECB by making use of its macroprudential mandate. Nevertheless, let me mention that the ECB currently has a macroprudential toolkit which is rather narrow in scope, as it mainly refers to the possibility of imposing additional capital surcharges for banks, in accordance with the Capital Requirements Regulation¹ and Directive² (CRR/CRD IV). Measures aimed at limiting the excessive indebtedness of households, such as limits on loans in relation to the value of the residence posted as collateral, are presently the exclusive remit of national authorities.

Yours sincerely,

[signed]

Mario Draghi

¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council.

² Directive 2013/36/EU of the European Parliament and of the Council.

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