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**Our reference**

2016-0000204987

**Your letter / Your reference**

Dear Mr Draghi,

The ESRB is publishing a warning on the residential real estate sector in the Netherlands, highlighting medium-term vulnerabilities. In particular, concerns are expressed regarding the high level of household indebtedness and the low level of mortgage collateralization (especially among younger households), and its possible consequences for financial stability.

The Netherlands welcomes the analysis, and supports the work by the ESRB to monitor systemic risks to financial stability in the EU and its Member States. The ESRB rightly stresses the importance of remaining vigilant with regards to the potential risks stemming from high household debts. As mentioned in the ESRB analysis, there are important factors that mitigate the risks of high household debt in the Netherlands. The Dutch banking sector has been subject to several stress tests over the recent years and has sufficient capital to withstand shocks, mitigating the direct risks to financial stability.

Moreover, the Dutch cabinet recognized the need to contain household debt levels and the risk these pose to financial stability. Consequently, it has enacted a broad package of reforms to contribute to, amongst others, stemming the growth of household debt levels. The cabinet has decided to gradually reduce mortgage interest deductibility. Also, new mortgages can only qualify for mortgage interest deductibility if the loan amortizes on at least an annuity basis within 30 years. This means that new mortgage loans will amortize fairly quickly, moderating the increase in household debt levels, all the while ensuring households are more protected from house price decreases, if they occur. Moreover, mortgage lending standards have been introduced into law. A loan-to-value limit has been introduced and gradually reduced. Also, debt-service-to-income limits have been embedded in law.

The housing market is recovering in a regionally differentiated manner, leaving a substantial share of households with mortgage debts in excess of their home value, as acknowledged by the ESRB analysis. The package of reforms implemented by the cabinet seeks to stem the increase in household indebtedness, and its

associated risks, while supporting a broad housing market recovery in a balanced manner.

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As many of the reforms are being phased in gradually, we expect that the reforms will continue to contribute to a more moderate growth of household indebtedness and its associated risks.

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Yours sincerely,



J.R.V.A. Dijsselbloem