MINISTRY OF FINANCE

9.11.2016

General Board of the European Systemic Risk Board
Sonnemannstrasse 20
60314 Frankfurt am Main
Germany

Ref: ESRB/2016/08

Response to the Warning of the General Board of the European Systemic Risk Board (ESRB/2016/08)

Dear Chair,

Regarding the Warning of the General Board of the European Systemic Risk Board (ESRB/2016/08) on *medium-term vulnerabilities in the residential real estate sector of Finland,* I take this opportunity to note the following.

First of all, let me emphasize that the government of Finland as well as the relevant authorities take the Warning seriously and will continue to vigilantly monitor the identified risks and stand ready to take adequate policy measures in order to address them.

A few measures to dampen the risks in the residential real estate sector have in fact already been taken by the macro-prudential policy authority, namely the FIN-FSA Board. Since July 2016, the loan-to-value ratio of new mortgages has been applied in Finland. Moreover, an initiative to strengthen capital requirements for mortgage exposures by setting a floor to average risk weights was included in the macro-prudential policy decision of the FIN-FSA Board in June 2016. This will become effective as of July 2017 at the latest. In addition to these measures, the tax deductibility of mortgage interest payments is being phased-out in Finland.

The Warning acknowledges the abovementioned measures as appropriate but potentially insufficient to fully address all vulnerabilities in question. It is true that it is still too early to assess the effectiveness of the most recent policy measures given the early phase of their implementation. Obviously, the FIN-FSA Board may decide to further tighten the application of these tools if it considers it appropriate given the developments in the residential real estate sector.

For its own part, the government of Finland shall ensure that adequate tools will be available for the authorities in order to sufficiently act against these risks. To this effect, the Ministry of Finance of Finland is currently drafting legislation to add a systemic risk buffer to the macro-prudential policy toolbox. This would further complement and strengthen the current toolbox.

Furthermore, the on-going *review of the EU macro-prudential policy framework* provides a good opportunity to assess thoroughly additional needs and possible refinements on the macro-prudential policy framework, both in national and Union-wide level. In this context, additional policy instruments (flagged by several institutions), such as *loan-to-income, debt-to-income* and *debt-service-to-income* shall be considered in Finland. Meanwhile analyses, international comparisons and experiences of them in other countries are carefully studied.

Yours sincerely,

Minister of Finance Petteri Orpo