14 December 2020: Recommendation on the implementation of ESRB recommendation ESRB/2016/14 and ESRB/2019/3 on closing real estate data gaps (AFMS/2020/4)

The Financial Stability Council (FSC) has recommended to the Government in its meeting on 14 December 2020 pursuant to Article 33b(2)(d) of the Financial Market Supervision Act (FMAG) to implement ESRB recommendations ESRB/2016/14 and ESRB/2019/3 on closing real estate data gaps in, while considering the specifics of the Liechtenstein real estate and mortgage market in an adequate form.

The real estate sector plays an important role in the economy and its development can have a significant impact on the financial system. Past financial crises have shown that unsustainable developments in real estate markets can have serious consequences for the stability of the financial system and the economy as a whole.

Establishing a more harmonised framework to monitor developments in the residential and commercial real estate markets – the most significant segments of the real estate sector from a financial stability perspective – is therefore crucial to ensure early detection of vulnerabilities that could lead to financial crises in the future. To identify the build-up of systemic risks and assess the need for macroprudential intervention, decision-makers need reliable and relevant information, especially for the implementation of borrower-based instruments. A better understanding of the structural and cyclical features of the residential and commercial real estate market helps macroprudential supervisors and policymakers to better understand the dynamics of the real estate sector, identify the threats it poses to financial stability and take appropriate action.

Against this background, the above-mentioned ESRB recommendations envisage closing existing gaps in the availability and comparability of data on residential and commercial real estate markets relevant for such macroprudential purposes. The purpose of the recommendation is to implement a framework for the monitoring by national macroprudential authorities of developments in the real estate sector that are relevant for financial stability, based on commonly accepted target definitions and indicators.

In implementing this recommendation, particular account should be taken of the principle of proportionality and the special characteristics of the Liechtenstein financial market. The Financial Stability Council (FSC) therefore recommends that the FMA takes adequate account of the following points in its implementation:

- In particular, the size and development of the domestic residential and commercial real estate market should be taken into account in the implementation. In a small economy like Liechtenstein, the market volume and the number of transactions in the real estate market are naturally very low, which can occasionally lead to problems when calculating individual indicators. Against this background, only those data are to be collected that are meaningful and relevant from the perspective of the FMA for the assessment of risks to financial market stability.
- Against the background of high private household indebtedness, which is primarily driven by mortgage loans, monitoring of the residential real estate market appears central from the perspective of financial market stability in Liechtenstein. Better data availability enables macroprudential supervision and policy to monitor risks efficiently and, based on this, to apply the available macroprudential instruments in a targeted manner. When implementing the recommendation in the residential real estate sector, the specifics of the Liechtenstein mortgage market are to be taken into account in an adequate form.
- The lending volume for commercial real estate loans is however relatively small. Therefore, in terms of proportionality, it is recommended to strive for a pragmatic partial implementation of the ESRB recommendation regarding the data on commercial real estate.
- The available information on the collected indicators is intended to be sufficiently representative for the domestic residential and commercial property market. Against the background of the high concentration in the domestic mortgage market – the three other systemically important institutions have a market share of more than 95% in both residential and commercial real estate loans – the reporting obligation should only apply to those credit institutions that have a significant market share in residential or commercial real estate mortgages.