Denis Beau: Macroprudential policies to mitigate housing market risks

Opening remarks by Mr Denis Beau, First Deputy Governor of the Bank of France, at the Committee on the Global Financial System – Bank of France Conference "Macroprudential policies to mitigate housing market risks", Paris, 24 June 2024.

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Ladies and Gentlemen,

It is my great pleasure to welcome you and all the distinguished speakers at the Banque de France, here in Paris, to this first-of-its-kind conference on "Macroprudential policies to mitigate housing market risks".

The conference builds on the very interesting and useful work of a dedicated study group of the Bank for International Settlements' Committee on the Global Financial System. The study group published a report in December 2023 that you have probably all heard of. This work has been all the more valuable as experience with macroprudential policy is quite recent in most countries, even if macroprudential policy for housing market risks is gaining ground –be it in the form of borrower-based or capital-based measures. One of the report's strong added values is to draw on the practical experience of 14 countries around the globe, with a combined total of 168 years of experience, to provide us with concrete lessons for macroprudential policy implementation.

As we will reflect today, from a practical point of view, on how best to implement macroprudential policy for housing risks, we have to remember that macroprudential policy cannot be considered in isolation. Beyond theory, we are now in a time of real-world policy-making with all the challenges this entails, starting with the many interactions real-life macroprudential policy has to take into account. Let me highlight two of them in my introductory remarks today.

1. How to adapt? The challenge of the interaction with the macroeconomic environment

The first interaction challenge is centered on the question: how to adapt? How can and should housing-related macroprudential policy deal with the current macroeconomic environment? The CGFS report highlights that a majority of countries have set up intermediate objectives for macroprudential policy for housing risks that mostly refer either to borrower or lender resilience or to dampening the cycle. However our understanding of macroprudential tool effectiveness is largely based on the experience from upswings. There is still a lot to learn about the optimal use of macroprudential tools in housing market downturns in both dimensions.

The swift increase in interest rates since 2022 has been a regime shift for financial and non-financial actors alike. The pass-through of higher interest rates to the economy has undoubtedly had an impact on the real estate market and on financial stability. But the magnitude and speed of its impact differed across countries depending on a range of factors, including the structural features of housing financing, such as the importance of fixed vs variable rates or mortgage duration. Another important factor has been the level of debt of non-financial actors.

This new environment has raised several questions for the conduct of macroprudential policy. As monetary policy has been restrictive on purpose to preserve price stability, should macroprudential tools be relaxed in the face of the real estate market downturn? Faced with this dilemma, the report provides us with food for thought: one of its main lessons for macroprudential policy-makers is to recommend prioritization of tools that meet objectives without adjustment. In particular, if we aim at maintaining resilience, tools which act as guardrails appear especially helpful in a context when financial stability risks have increased.

On this, I look forward to hearing the views of the panelists that will discuss the structural vs cyclical use of macroprudential policy but we will also get useful insights from the panel on current financial stability challenges in housing markets and the distribution of risks.

2. How to articulate? The challenge of the interaction with other policies

The second interaction challenge that I will dwell on today is the following: "How to articulate macroprudential policy for housing risks with other policies?" We have to be humble: macroprudential policy can do a lot but cannot do everything, and this is especially true when it comes to housing, which has a multifaceted nature. And we have to be clear on the purpose of macroprudential policy, which is safeguarding financial stability –no more, no less.

Obviously macroprudential policies are a complement to the first line of defense for financial institutions which is sound management, incentivized by demanding regulation and effective supervision. In this regard in Europe we have come a long way in institutional terms: I am proud that we are celebrating today the 10th anniversary of Europe's Single Supervisory Mechanism, which has proved to be a success.

More broadly, the CGFS report emphasizes that successful mitigation of housing markets vulnerabilities is facilitated by consistency across all housing-related policies, including tax, planning and land supply policies that may have an impact on demand-supply imbalances in the housing market. In these interactions, the focus and added value of macroprudential policy for housing risks is to strengthen financial resilience.

However, the perimeter of macroprudential policy for housing risks can sometimes be questioned. Indeed, unlike other areas of macroprudential policy, housing-related macroprudential policies may have potentially large distributional consequences. But there are several ways in which such distributional costs can be mitigated, starting with the design of measures. Flexibility margins are a common way to achieve this. The perimeter of macroprudential policy can also be challenged by developments in the financial sector. The role of non-banks in housing financing has to be carefully taken into account and may call, as in other areas, for the broadening of housing-related macroprudential policies beyond the banking sector.

On this challenge of the interaction with other policies, I am sure that the panels on governance and on assessing the costs and benefits of macroprudential policy will be enlightening.

Conclusion

I have underlined two interaction challenges for housing-related macroprudential policy –the interaction with the macroeconomic environment and the interaction with other policies. Let me conclude by a third one that can help us to identify best practices and solutions: the interaction with other jurisdictions.

Compared with other macroprudential policies, cross-border leakages appear less relevant for housing risks. This does not mean that domestic housing risks cannot have an impact across borders: the 2007-08 financial crisis, which started with the spark of the subprime mortgage crisis in the United States, is a case in point. And this means that housing-related risks concern all jurisdictions, even if the structure of housing financing may be different.

Today we are gathered to reflect together on those important questions surrounding housing-related macroprudential policy-making and we have the opportunity to get inspired from what other jurisdictions around the globe are doing. I wish you fruitful and enlightening discussions throughout this conference. Thank you for your attention.