

CGFS – Banque de France Conference on macroprudential policies to mitigate housing market risks

Paris, 24 June 2024 – Venue: Banque de France

Topics raised in CGFS report: *“Macroprudential policies to mitigate housing markets risks”*

REGISTRATION AND COFFEE	08:30 – 09:00
OPENING REMARKS	09:00 – 09:15
Denis Beau (Deputy Governor, Banque de France)	
SESSION 1: GOVERNANCE	09:15 – 10:35
<p>The collective experience in using macroprudential policies shows that governance frameworks have had an important influence on policy effectiveness. The report highlights aspects of existing governance frameworks that have helped to mitigate risks in housing markets, as well as practical remedies that facilitate policymaking.</p> <p>Nevertheless, governance challenges often loom large. One example is the role of ministries in the decision-making authority. The report recommends that one authority, with a clear mandate and a fully-fledged toolkit, should be responsible for macroprudential policy. However, the report is not clear on the role of ministries in the decision-making body. On the one hand, excluding ministries increases the operational independence of the macroprudential authority. On the other hand, their direct involvement may help to maintain political support and potentially bring additional tax and planning tools, which may better target specific housing market risks.</p> <p>This session will explore aspects of governance frameworks that enhance policy setting and possible arrangements that could optimise the trade-offs.</p>	
<ul style="list-style-type: none">• Presentation: Lu Zhang (De Nederlandsche Bank)• Panel<ul style="list-style-type: none">– Ryan Banerjee (Bank for International Settlements)– Tae Soo Kang (Professor, KAIST College of Business and former Deputy Governor, Bank of Korea)– Tuomas Peltonen (Deputy Head of Secretariat, European Systemic Risk Board)– Moderator: François Haas (Banque de France)• Q&A	
COFFEE BREAK	10:35 – 11:00

SESSION 2: STRUCTURAL VS CYCLICAL USE OF MACROPRUDENTIAL POLICY 11:00 – 12:20

Inaction bias due to uncertainty about underlying risks or governance deficiencies is a perennial challenge for macroprudential policymakers. In light of this, the report suggests that the use of tools that achieve their objectives without active adjustment could be particularly effective.

Some existing tools might achieve resilience objectives without requiring adjustment (eg DTI and DSTI limits, or floors on risk weights). These have often been seen as “structural tools” that tend not to be adjusted over the cycle. Other tools, such as LTVs, require adjustment over the cycle to maintain resilience, for example as house prices move further away from fundamentals.

To the extent that macroprudential authorities focus solely on maintaining resilience, rather than actively seeking to dampen the cycle, using tools structurally (ie not varying them over the cycle) can also mitigate communication challenges.

This session will explore the advantages and disadvantages of structural and cyclical variation of policy tools. And how to achieve an optimal tool design that minimises the challenges associated with active policy adjustment.

- Presentation: Chris McDonald (Reserve Bank of New Zealand)
- Panel
 - Anton Korinek (Professor, University of Virginia, Department of Economics and Darden School of Business)
 - Howard Lee (Deputy Chief Executive, Hong Kong Monetary Authority)
 - Hélène Rey (Professor, London Business School)
 - Moderator: Ryan Banerjee (Bank for International Settlements)
- Q&A

LUNCH 12:20 – 13:50

SESSION 3: CURRENT FINANCIAL STABILITY CHALLENGES IN HOUSING MARKETS AND THE DISTRIBUTION OF RISKS 13:50 – 14:50

There are considerable differences between countries in the way housing finance risks are distributed. There are significant differences in the distribution of interest rate risk between households and the financial sector. There are differences about in terms of whether loans are kept on lenders balance sheets or securitised or funded through issuances of covered bonds. Finally, there are also differences in how lenders protect themselves in case of default, whether through housing collateral or credit guarantees.

As interest rates have risen globally, what are the current financial stability challenges arising from housing markets, and to what extent do they differ depending on differences in the structure of housing finance across countries?

- Panel
 - Agnès Bénassy-Quéré (Deputy Governor, Banque de France)
 - Anil Kashyap (Professor, University of Chicago, Booth School of Business)
 - Philip Lowe (former Governor, Reserve Bank of Australia)
 - Vas Madouros (Deputy Governor, Central Bank of Ireland)
 - Moderator: Emmanuelle Assouan (Banque de France)
- Q&A

COFFEE BREAK	14:50 – 15:20
SESSION 4: ASSESSING THE COSTS AND BENEFITS OF MACROPRUDENTIAL POLICY FOR HOUSING MARKETS	15:20 – 16:30

A better quantitative understanding of the costs relative to the benefits could help overcome many of the practical challenges of setting macroprudential policy. For example, a quantitative understanding of the costs and benefits would facilitate accountability, help to insulate policy from political economy influences and potentially inform quantitative targets for macroprudential policy.

A few macroprudential authorities now try to assess and communicate their macroprudential stance within a cost-benefit framework. The case studies suggest that transparency on the costs and benefits can help build long-term support for macroprudential measures. However, these cost-benefit frameworks are still in their infancy and significant challenges remain in identifying and quantifying the relevant costs and benefits.

This session aims to take stock of what we know so far about quantifying the costs and benefits and to identify where the academic community can help to improve these frameworks.

- Presentation: Barbara Jarmulska (European Central Bank)
- Panel
 - Gaston Gelos (Deputy Head of the Monetary and Economic Department, Bank for International Settlements)
 - John Muellbauer (Professor, University of Oxford)
 - Julita Varanauskienė (Deputy Chairwoman, Bank of Lithuania)
 - Moderator: Nikola Tarashev (Bank for International Settlements)
- Q&A

CLOSING REMARKS	16:30 –
Emmanuelle Assouan (Director General, Banque de France)	16:35