



# Panel on: Housing markets, mortgages and regional differences.

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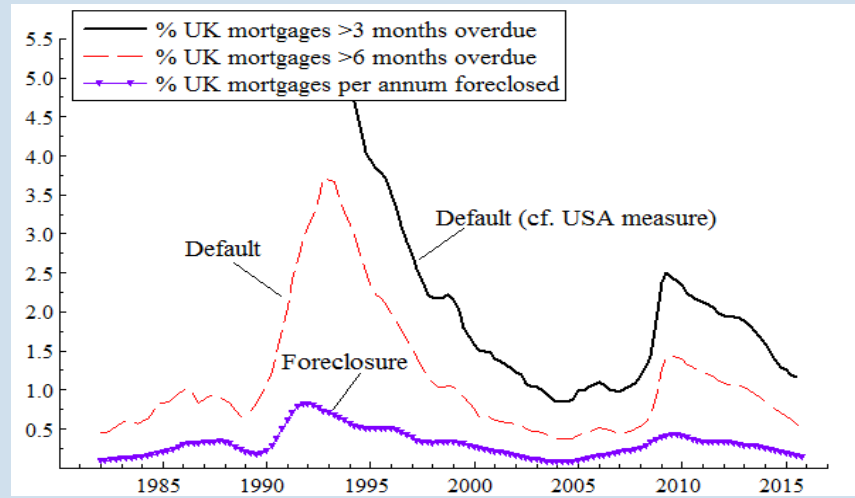
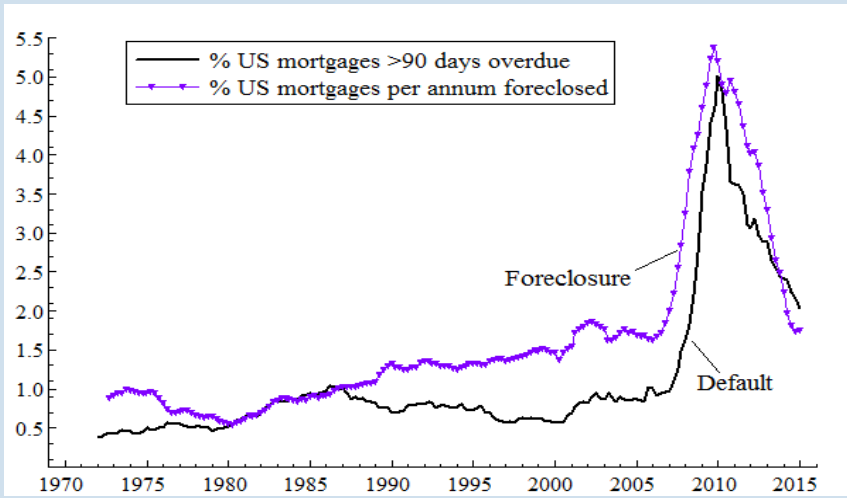
# Cross-country institutional diversity : matters for both monetary transmission and financial stability.



- Risks posed by monetary union due to **institutional differences in credit, tax systems, land use and housing and labour markets** (Maclennan et al. (1998), updated [Muellbauer \(2022\)](#)).
- Transmission via house building, consumer spending & amplifying feedbacks. **Key issues:**
  - Housing loans collateralised or covered by collective insurance?
  - Fixed vs floating rate mortgages?
  - Mortgage interest tax relief?
  - Home equity withdrawal?
  - Market value linked property tax?
  - Owner-occupation rate, rent regulation.
  - Quality and setting of BBMs.
  - Structure of banking system: complexity, interconnectedness, maturity mis-match.
  - Other financial regulation & bank supervision: e.g. capital requirements on banks, stress test regime.
- **Cross-country panel evidence** on effectiveness of macropru:
  - fixed effects cannot capture structural differences in 56 (or 119) country panels, [Muellbauer \(2024\)](#).

# Extrapolative expectations increase amplification; floating interest rates are double-edged.

- Housing market participants *often extrapolate past appreciation* (evid. [Duca, Muellbauer & Murphy \(2021\)](#), section 4.3)
- *Expectations affected by:*
  - Market related property tax: automatic tax rise with rising values cuts prospective returns.
  - Gearing (high LTV), since gearing amplifies returns. And gearing depends on loan standards and hence macropru. Mortgage interest tax relief incentivises high gearing.
  - Path dependence: encouraged by history of large amplitude house price swings.
- Floating rates can *destabilise* with interest rate shock (UK 1990-93); but *stabilise* by speedily transmitting policy easing (UK GFC vs. US GFC), [Aron & Muellbauer \(2016\)](#).



# Macropru should manage the credit cycle: via lending standards, interacting with NPLs and housing.

- Macropru and lending standards:
  - Borrower-based measures include ceilings on LTVs, LTIs, DSTIs;
  - Lender-based measures include capital requirements and liquidity standards.
- Connection - lending standards and the credit cycle, [Muellbauer \(2022\)](#) (evid., France):
  - Lending standards are an important driver of real estate prices, credit growth, consumer expenditure and residential investment (*hence economic activity*); and of NPLs.
- Connection between NPLs and lending standards:
  - Higher NPLs lead to tighter lending standards (*amplifying the downturn in the economy*).
- Interest rates affect NPLs and hence lending standards:
  - Interest rates are key drivers of real estate prices, credit growth, consumer expenditure and residential investment (*hence economic activity*); and of NPLs.
- **Close interconnection between monetary policy and macropru policy in real estate context: insufficient attention in modelling and policy-making.**
- **Contrast:**
  - *sophisticated appreciation of real estate in the credit cycle* at the ESRB and central banks' financial stability teams *and* comparative under-emphasis by monetary policy modelling teams.

- Given that monetary policy is made in Frankfurt:
  - Devolved management of macropru helps manage each country's credit cycle and compensate for risks posed by diversity.
- Supra-national bodies (the ESRB, the ECB, the EBA) and national central banks and regulators must co-ordinate:
  - Apart from principles of democratic control and subsidiarity, institutional heterogeneity makes this a functional necessity.
- Welcome push from the supra-national bodies for:
  - Improved cross-country data monitoring across CRE and RRE.
  - New instruments e.g. sectoral systemic risk buffers.
  - Minimum standards on the legal perimeter for borrower-based macropru measures.
- The current system where the ESRB issues warnings of risk build-up, recommendations for macropru tightening and follow-up checks on implementation, is broadly working:
  - But with better data it could improve.
- Macroprudential policy, esp'y using BBMs, raises distributional and governance issues.

- **Survey** of recent empirical research on distributional implications on use of borrowed-based tools ([Muellbauer \(2024\)](#), section 5.3).
- Politicians/Media worry: tighter BBMs (i.e. lower LTV or DSTI ceilings, higher amortisation requirements) cut owner-occupation, increase inequality, lower welfare.
- If these are your concerns:
  - Eliminate/limit mortgage interest tax deduction; found highly regressive ([OECD 2021](#))
  - Make property taxes proportional or progressive, linked to market values.
  - Use split rate taxes to tax land more heavily than buildings, [Muellbauer 2023](#).
  - Reform land use zoning or planning to increase housing supply.
  - Reduce transfer taxes.
  - Soften the short-term impact of BBMs through escape clauses.
- Analysis of granular data:
  - Use systems approach with a complete capture of dynamic interactions among: households (renters and owner-occupiers); investors; landlords; banks, firms; fiscal authority; central bank and/or financial regulator.
  - [New book \(open access\) by Jagoda Kaszowska-Mojca](#) : how ABM approach illuminates distributional implications.

1. *Consistency across housing-related policies*: helps mitigate boom-bust cycles in housing markets.
  - e.g. Tax, planning and land supply policies all have a decisive influence on demand-supply imbalances in the housing market.
  - Macroprudential policies complement these policies.
2. *Governance arrangements*: an important influence on policy effectiveness.
3. *Mitigate inaction bias*: prioritise tools to meet objectives that require no adjustment.
  - e.g. Floors on loss-given-default parameters; minimum risk weights; appropriately designed income-based borrowing limits.
  - Help maintain resilience in housing market upswings, and sharp interest rate shocks.
4. *Openness about cost-benefit trade-offs*: fosters LT support for macropru policies.
  - Communication re costs, benefits, uncertainties of measurement and how these informed policy decisions - maintains support when memory of housing crises fade.