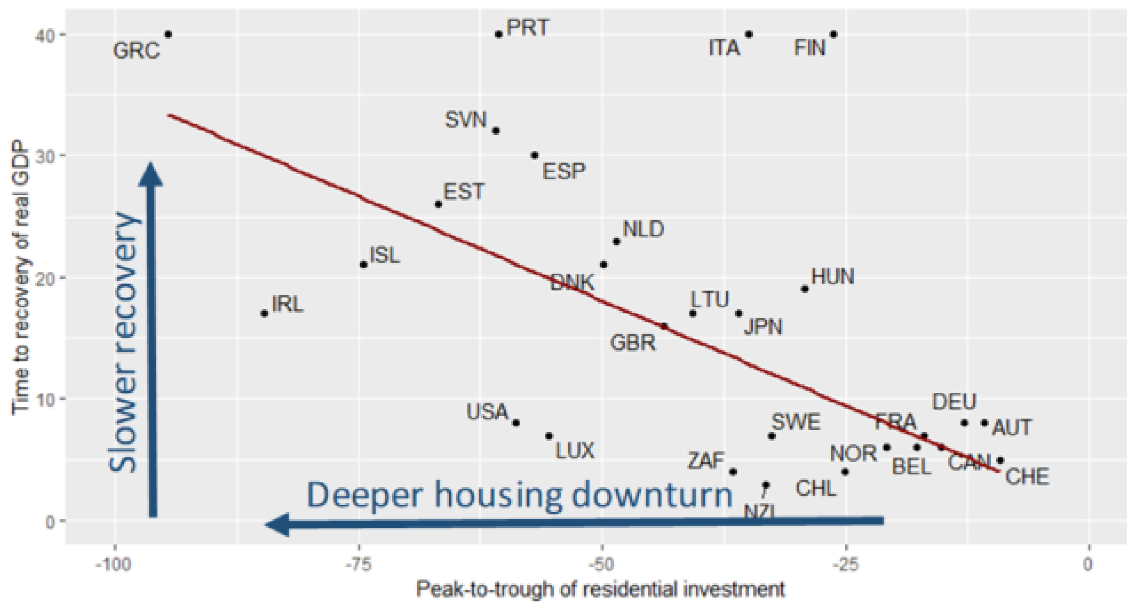
# Housing-related policies matter for economic resilience

By Boris Cournède, Sahra Sakha and Volker Ziemann

https://www.oecd.org/housing/policy-toolkit/

Policies that shape the housing market, such as rules concerning mortgage lending, homebuilding and rental regulation as well as taxation, can have a considerable impact on economic crisis risks and the capacity to recover from a crisis. The reason is that housing market developments strongly influence the business cycle and macroeconomic trends. Changes in house prices, rents and mortgage interest rates prompt variations in household wealth, income and expenditure that often have a sizeable impact on aggregate demand and inflation. Furthermore, house price fluctuations affect residential investment, which is a component of GDP. Countries with sharper declines in residential investment in the aftermath of the global financial crisis generally needed more time to recover from the crisis and regain the pre-crisis level of real GDP (Figure 1).

**Figure 1. The recovery from the global financial crisis took longer in countries that experienced deeper housing downturns**




*Note*: Time to recovery in quarters (equals 40 if not recovered by 2018). Peak-to-trough in % of pre-crisis peak.
*Source*: OECD Economic Outlook database.

New OECD empirical studies have probed the transmission of housing-related shocks to the real economy and the role that policy plays in (a) mitigating or amplifying shocks and (b) facilitating or hampering a recovery. The aim is to identify which housing policy-related reforms can foster economic resilience. These studies used a range of econometric techniques, including quantile regressions, probit estimation and propensity-score matching.

The main findings are (Table 1):

- Tighter loan-to-value (LTV) caps are associated with a reduced likelihood of severe downturns but also slower recoveries and lower growth. Overall, the evidence confirms earlier results that LTVs seem to entail a trade-off between growth and crisis risk.
- More demanding capital requirements also appear to involve the same trade-off, as they are linked with a reduced incidence of downturns but lower median growth. Risk weights that penalise risky mortgages more are tentatively linked with stronger episodes of positive growth, which would be consistent with the hypothesis

that they encourage a more efficient allocation of credit.

- More stringent rental market regulations are associated with severe downturns that are more likely and more protracted, which may be related to bottlenecks in housing supply and lower labour mobility. On the other hand, tighter rental regulations, which aim to protect tenants against adverse economic shocks, appear to be associated with reduced extreme output losses (measured by GDP-at-risk).
- Higher effective taxation of housing is associated with less severe downturns. Moreover, countries with higher taxation experience more moderate house price fluctuations and smoother residential construction cycles.

**Table 1. Main effects of tightening housing-related policies on resilience**

| | GDP-at-risk | Crisis risk | Severity of downturn | Strength of recovery |
|---|---|---|---|---|
| LTV caps | | ↘ (green) | | ↘ (red) |
| Capital requirements for mortgage loans | | ↘ (green) | | ↗ (green) |
| Rental regulation | ↗ (green) | ↗ (red) | ↗ (red) | |
| Property taxation | | | ↘ (green) | |

*Note:* The table summarises the results of empirical exercises performed throughout the study. Green means a favourable outcome and red an unfavourable one. Only significant results are shown. GDP-at-risk refers to the bottom 5% quantile of the distribution of quarterly real GDP growth. Tightening means increases in policy indicators, except for LTV caps where a decrease of the policy value signifies a tightening. Detailed report:

Taken together, these results mean that, in the management of macroeconomic risks from housing, policies that shape the housing market itself, such as its regulation and taxation, are at least as important as tools to manage the flow of credit. Well-functioning housing markets are therefore important not only to improve housing affordability but also to enhance macroeconomic resilience.

**References:**

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and Economic Resilience”, *OECD Economics Department Working Papers*, OECD Publishing, Paris, https://doi.org/10.1787/aa029083-en.