

Balancing Act: the Link between Monetary Policy and Financial Stability

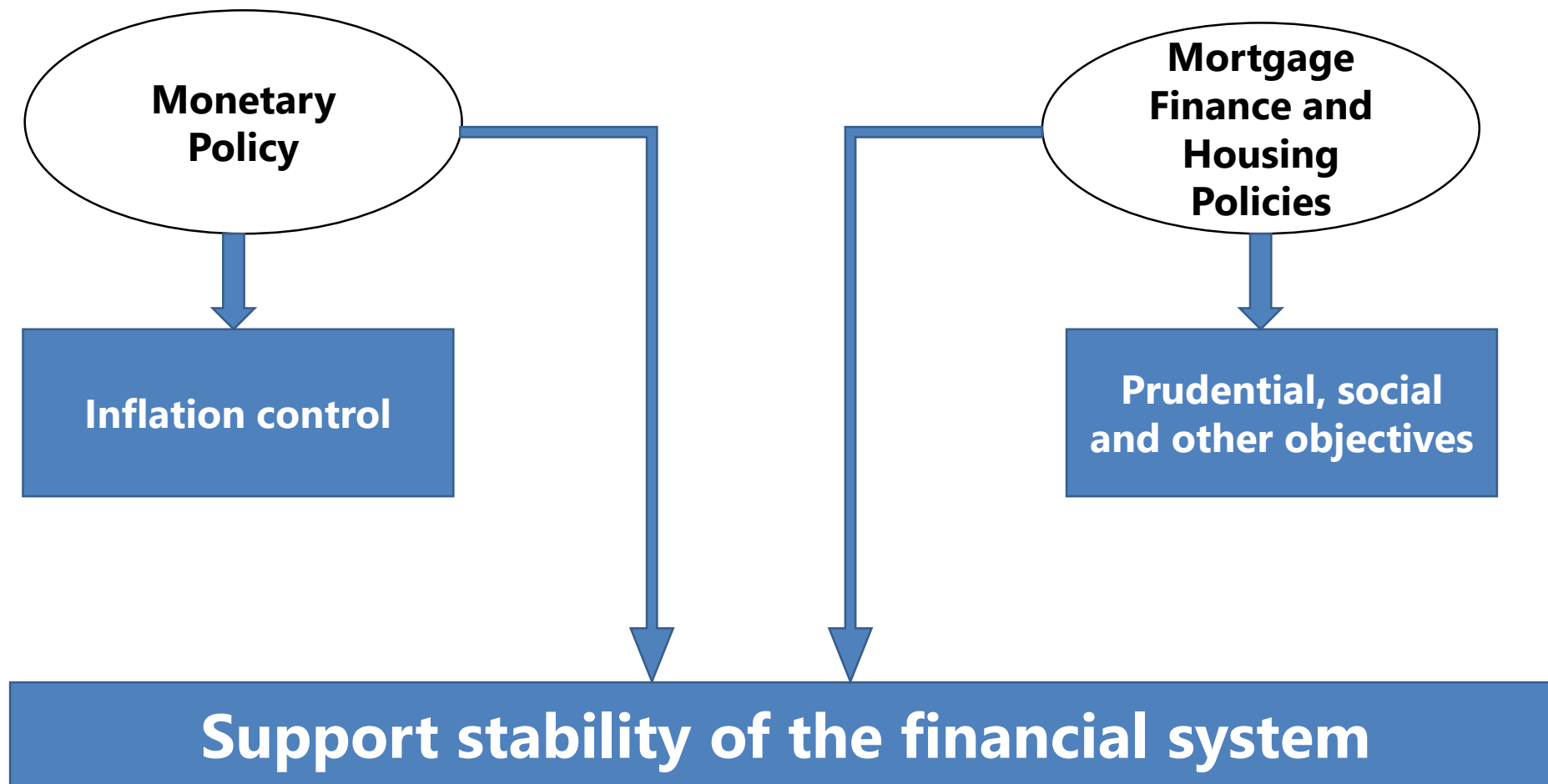
CMHC National Housing Conference
22 November 2018



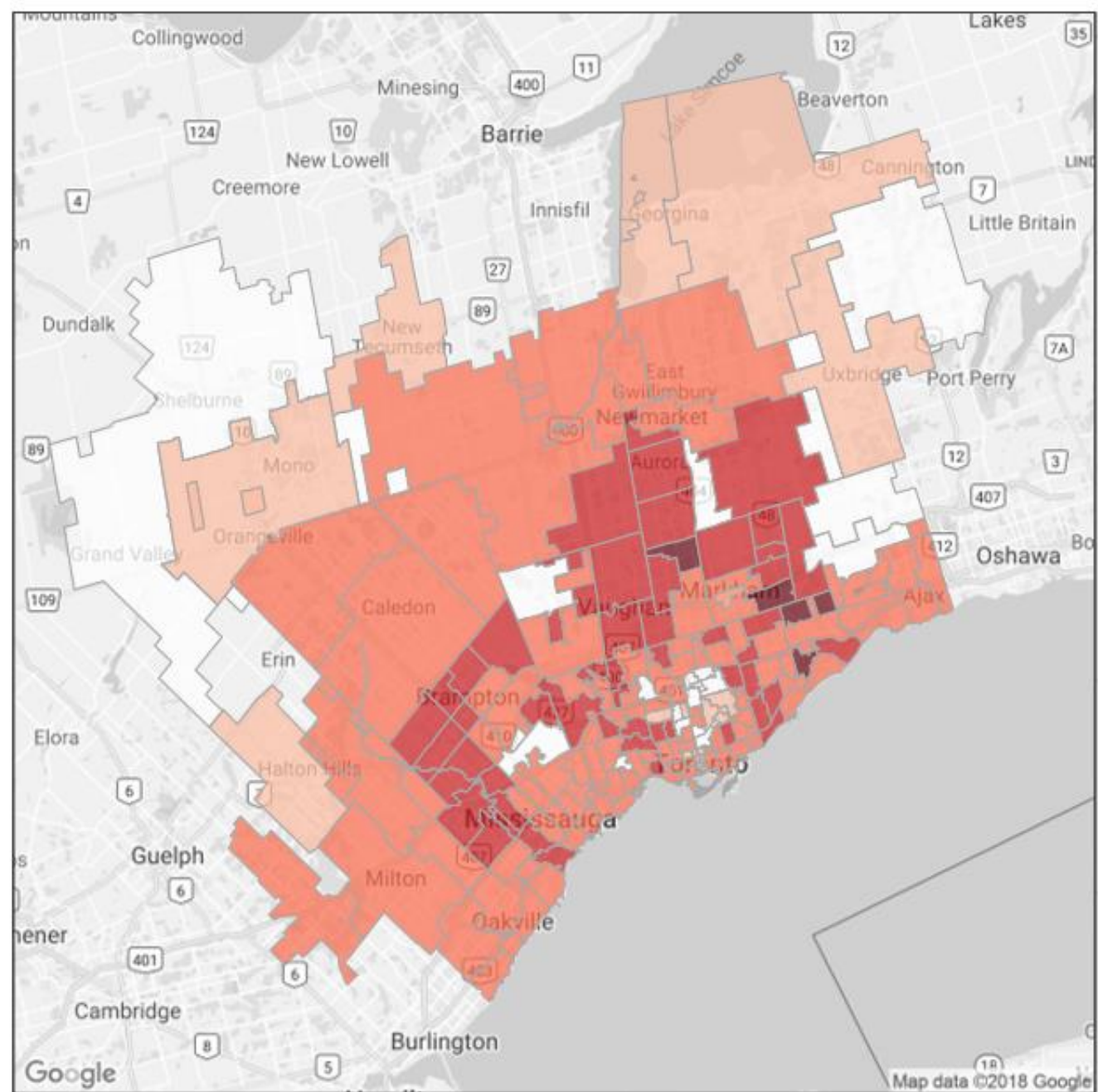
Carolyn A. Wilkins

Senior Deputy Governor
Bank of Canada

Monetary and macro-prudential policies work best when they work together



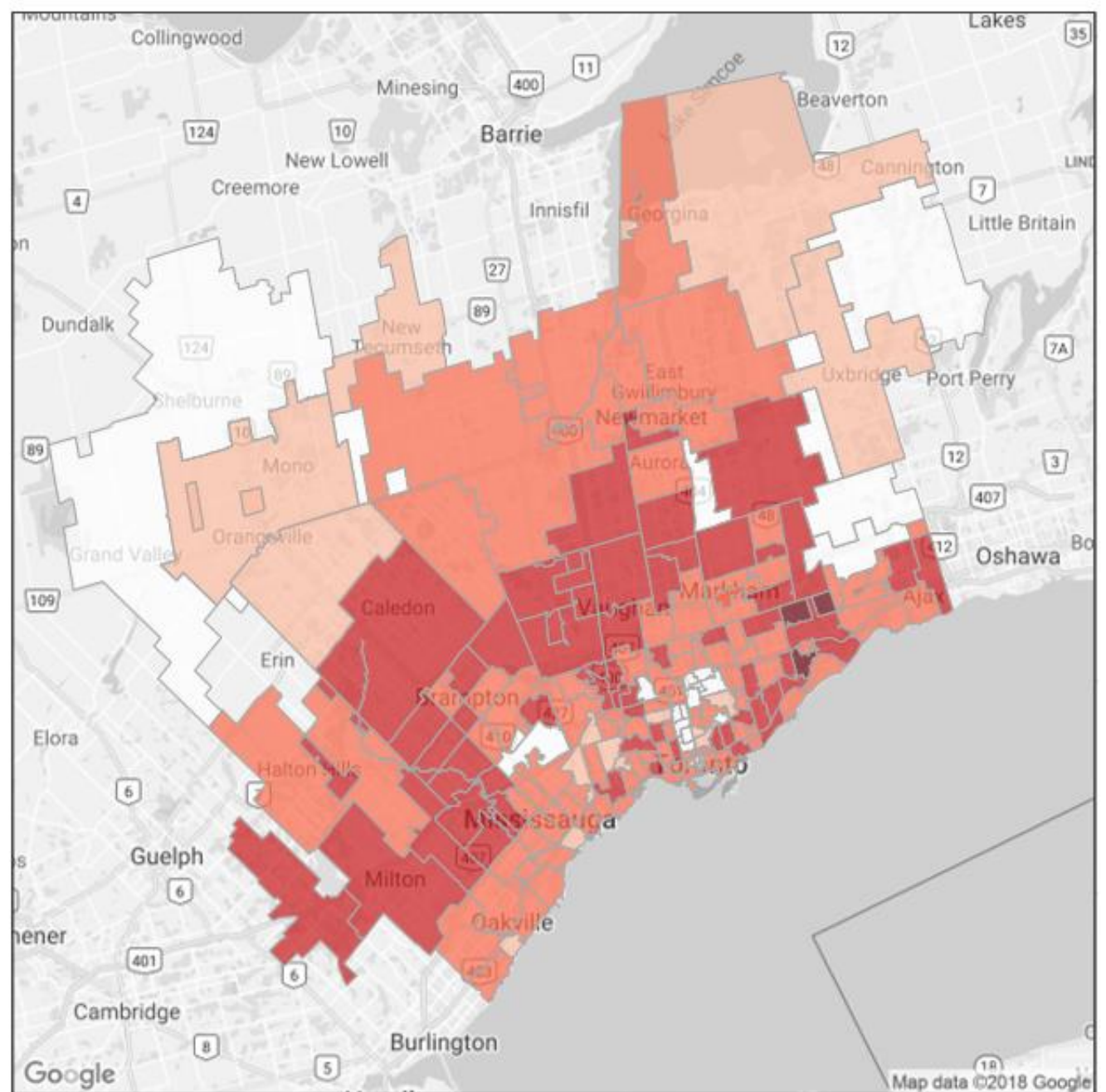
Loan-to-income ratios in Greater Toronto Area 2013



Average loan-to-income ratio of new high-ratio mortgages, by Forward Sortation Area (FSA)

Legend: N/A, <350, 350-400, 400-450, >450

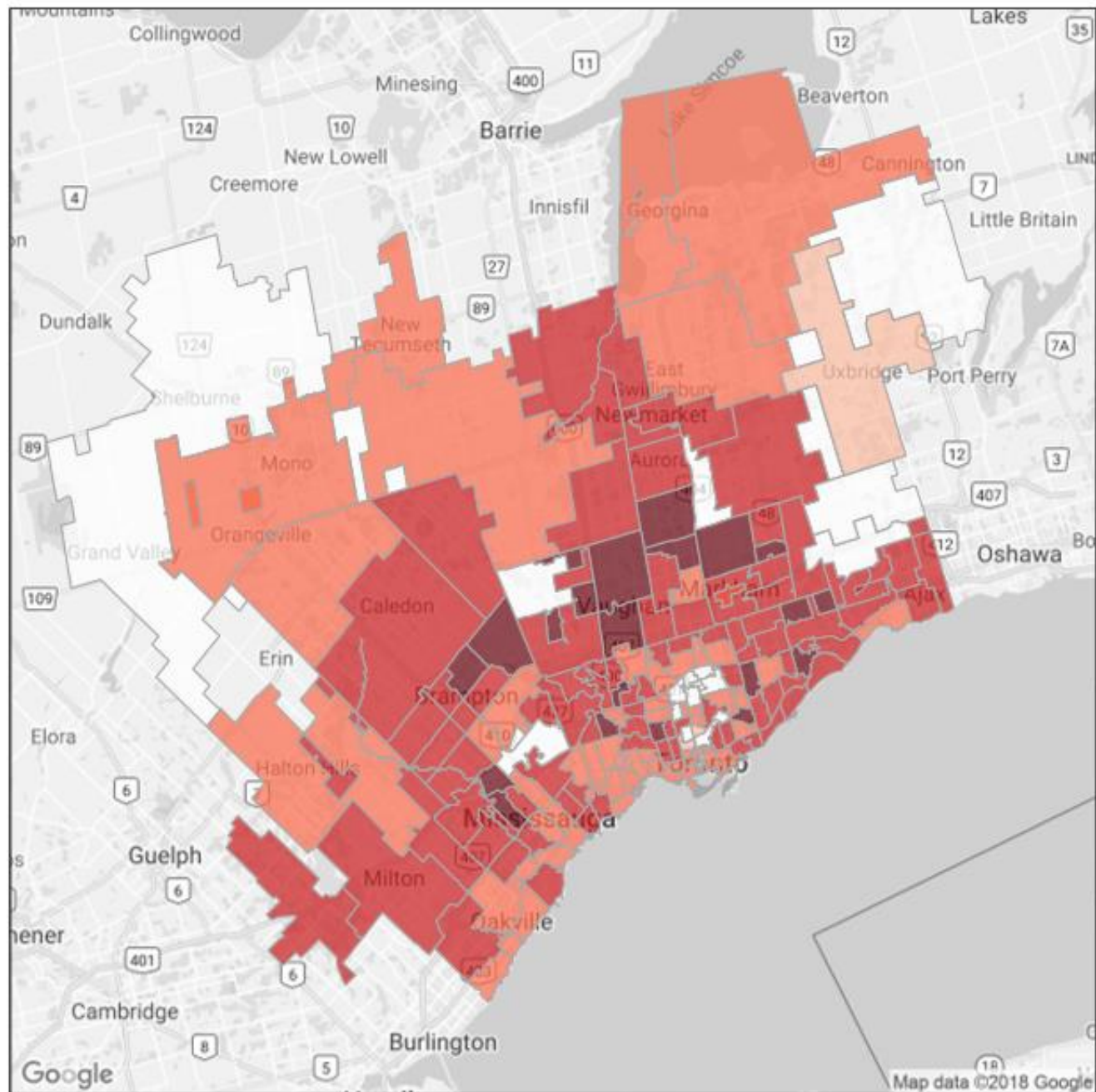
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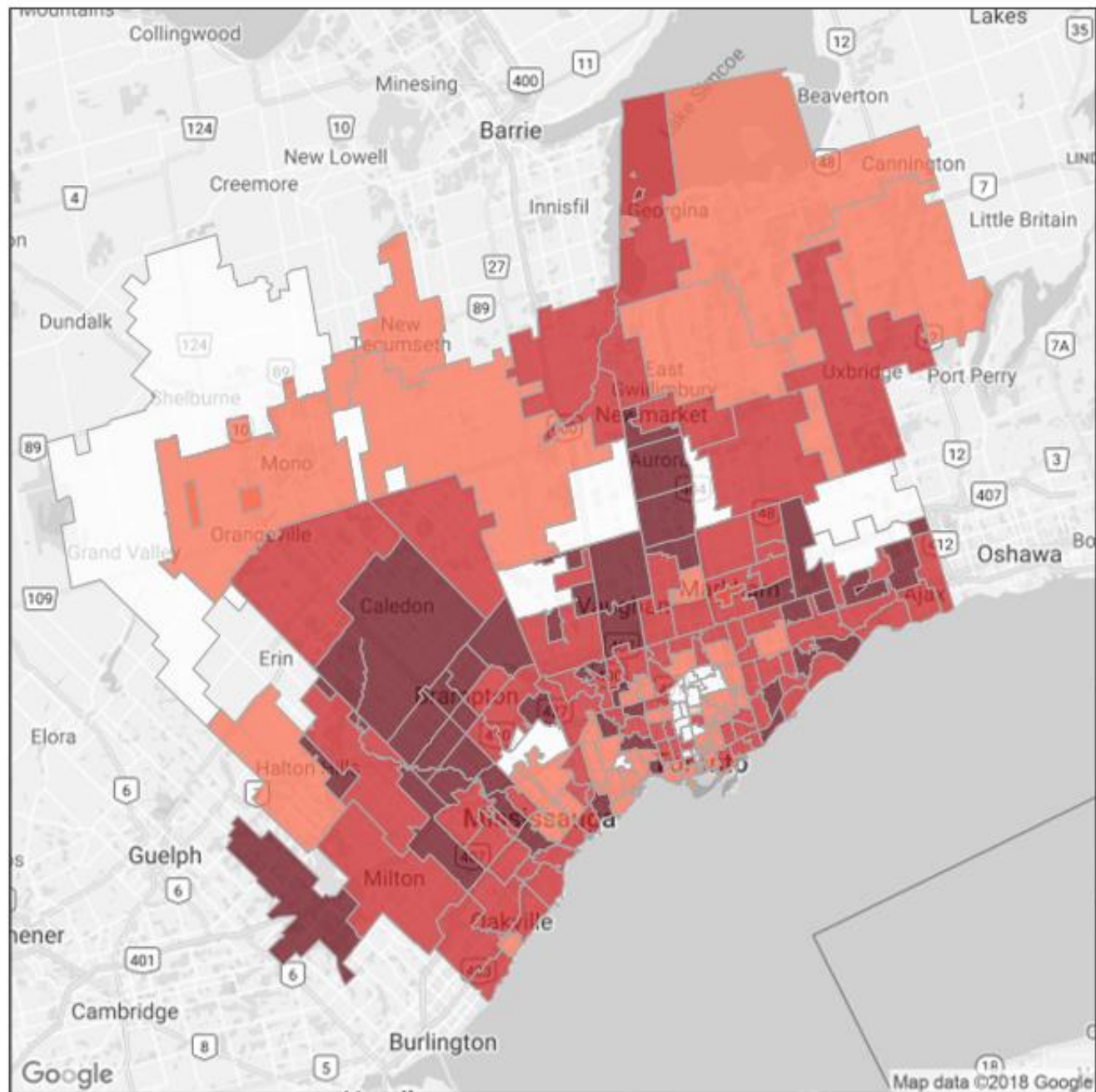
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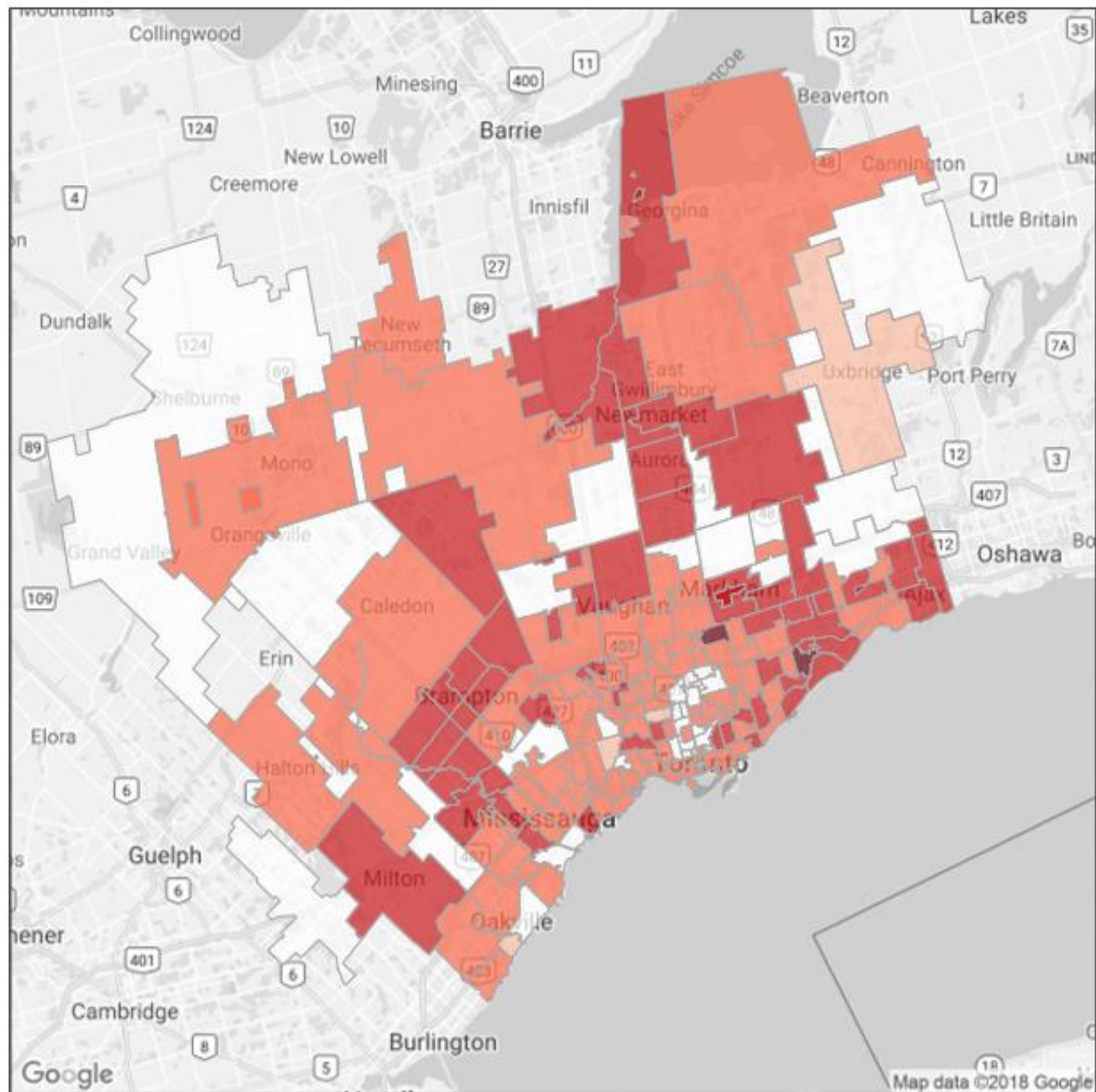
Loan-to-income ratios in Greater Toronto Area 2016



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Loan-to-income ratios in Greater Toronto Area 2017

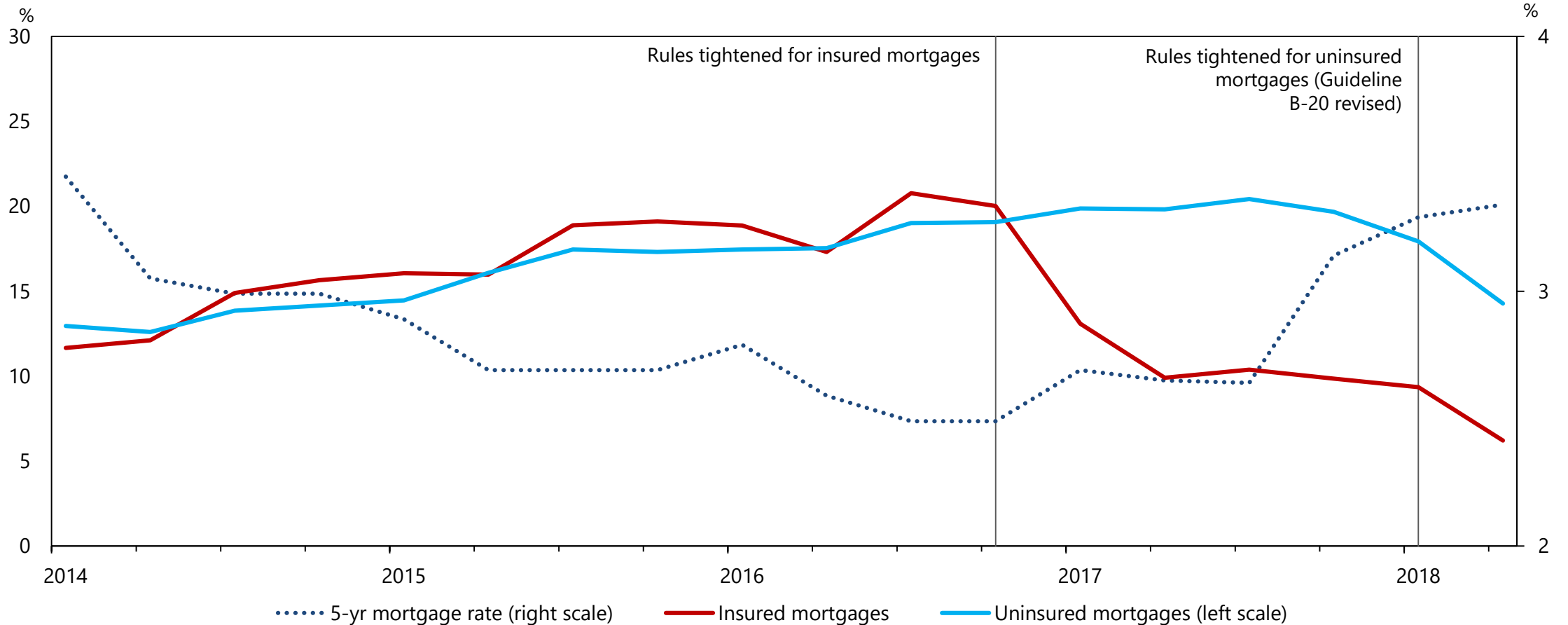


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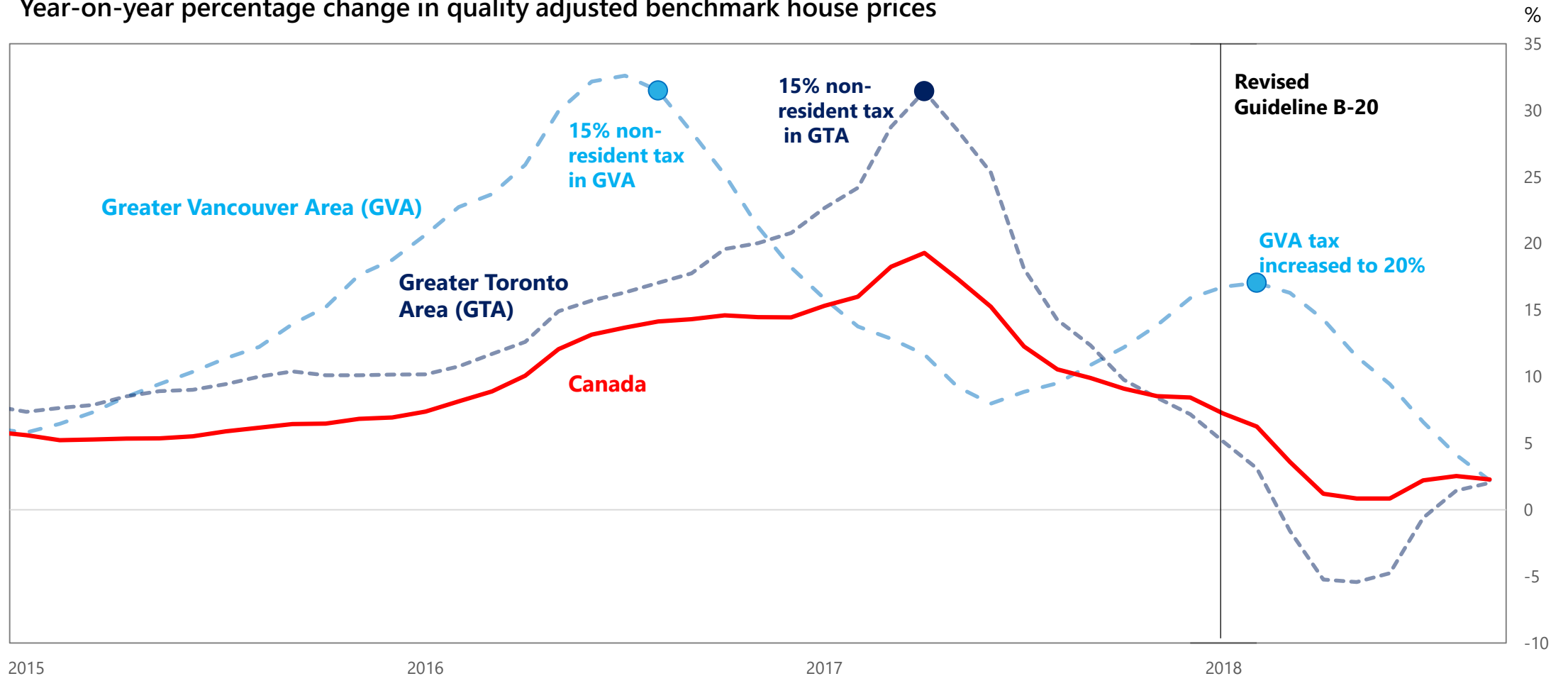
Policy measures have improved the quality of new mortgages...

Share of new mortgages with a loan-to-income ratio over 450 per cent;
5-year mortgage rate



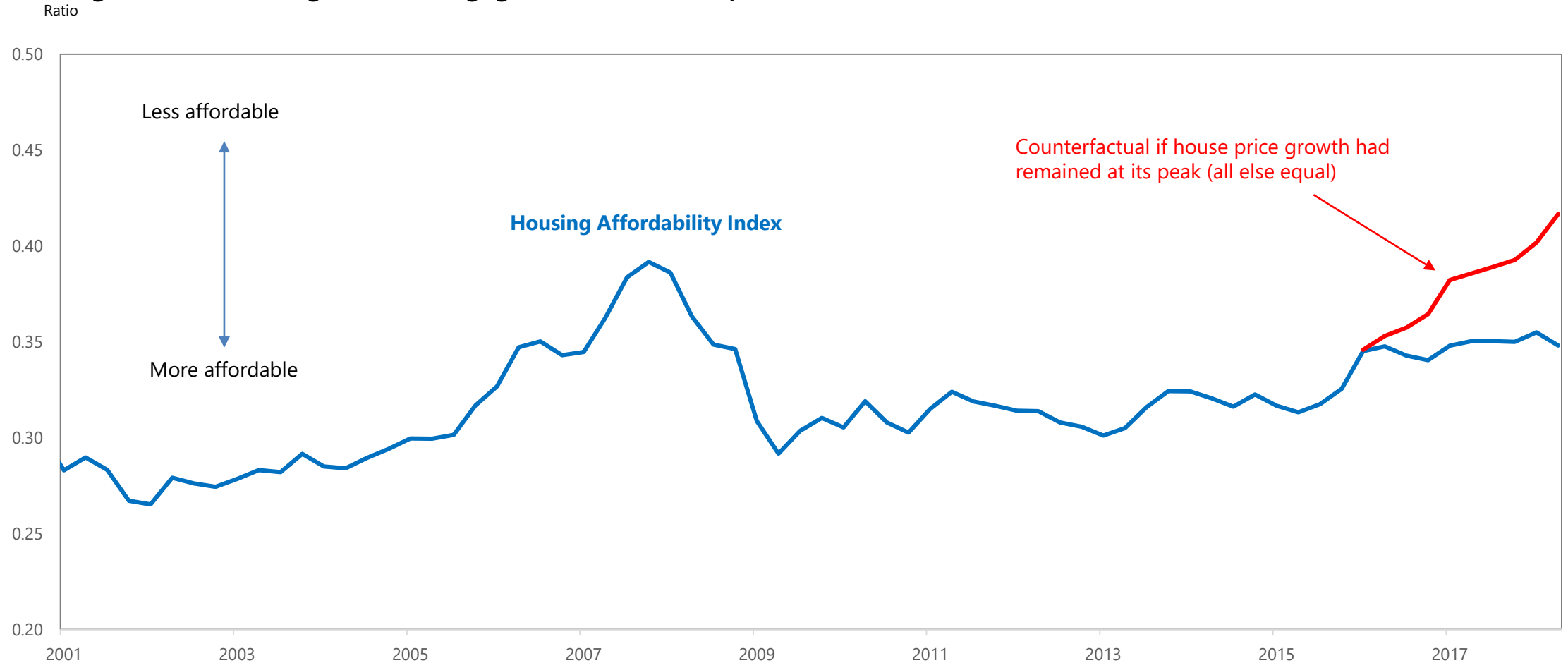
...and have slowed the housing market to a more sustainable pace

Year-on-year percentage change in quality adjusted benchmark house prices



Housing affordability is on a better track than it might have been

Average cost of servicing a new mortgage, as a share of disposable income¹

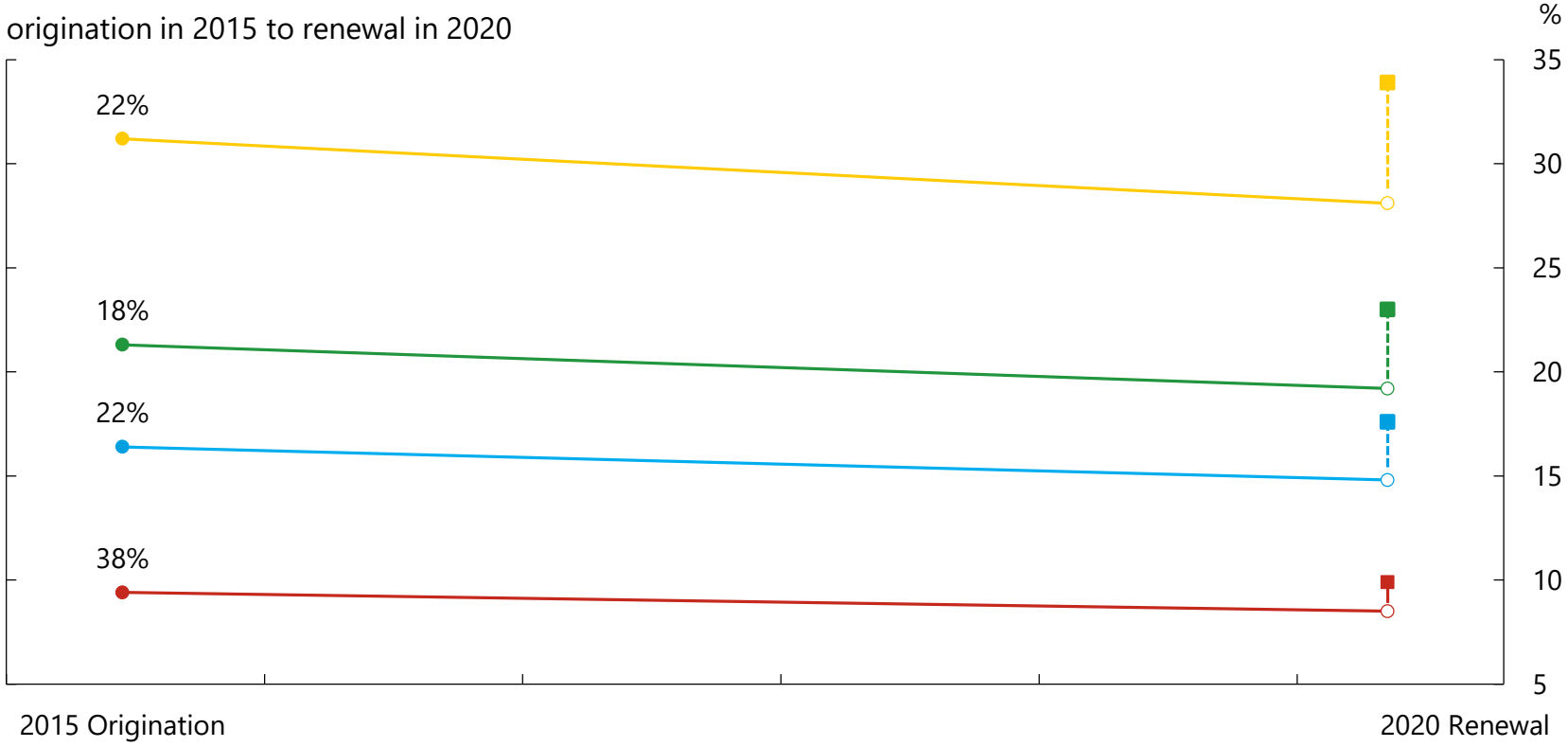


1. <https://credit.bankofcanada.ca/financialindicators/hai>

Example of how Bank assesses micro effects of interest rate increases

Annual mortgage payments as a percentage of annual income for 5-year fixed-rate mortgages, at different household indebtedness levels at origination

From origination in 2015 to renewal in 2020



- Loan-to-income ratio below 250%
- Loan-to-income ratio between 250% and 350%
- Loan-to-income ratio between 350% and 450%
- Loan-to-income ratio above 450%

Research to inform macro- prudential policy framework

- **Work with partners to strengthen operations**
 - On setting clear objectives, anything to learn from inflation-targeting framework?
 - How well do macro-prudential tools work at achieving the desired effects, and for how long?
- **Design questions for macro-prudential policies**
 - Structural or countercyclical? Rules-based or discretionary?
 - Can macro-prudential policies address time-inconsistency? Governance?
- **Optimal policy mix**
 - Best modeling strategy to map policy interactions?
 - How can authorities with clear and independent mandates coordinate effectively?