Evaluating heterogeneous effects of housing-sector-specific macroprudential policy tools on Belgian house price growth

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[1] The views expressed here are my own, and do not necessarily represent the views of the Bank of Finland.

This paper

- Estimates the effects of macroprudential policy on local house price growth in Belgium by using municipal-level data
- **Hypothesis:** Heterogeneous effects driven by variation in shares of credit-constrained or high-risk borrowers in each municipality
- **Main findings**: Find evidence that house price growth reduced in locations with higher shares of young and low-income households; effect amplified further when local housing markets are "hot"
- Very interesting and policy-relevant work!

My main comments

1. The big picture
2. Endogeneity issues
3. Robustness of results

What is the story you are telling?

- Policy objectives: mitigate systemic risk by reducing "too" risky or excessive lending, smooth financial cycle
- But policies have side effects and distributional consequences (e.g. Acharya et al. 2022, Eerola et al. 2022)
- How important are the estimated effects, in economic terms? Can you say something about general equilibrium effects, spillovers?
- What is the structural story in the background?

Endogeneity issues

- Macroprudential policy is likely to be endogenous to house price dynamics
- Not a problem if it is only endogenous to aggregate, not local house price developments
- But maybe policymakers pay more attention to house price developments in Brussels and other big cities?
- Spill-over effects across municipalities? Credit-constrained households could move to more affordable locations; lending activity reallocated following policy tightening (c.f. Acharya et al. 2022)

Measuring macroprudential policy, credit constraints, and robustness of results

- Results not robust to alternative (qualitative) index of macroprudential policy!
- What does the policy index capture? You combine supply and demand-side policies into one index, with very different transmission channels. Not much temporal variation in the index
- Alternative identification strategies focusing on the introduction of particular policies?
- Results also not entirely robust to common COVID shock
- May indicate that proxies for credit-constrained and high-risk households are noisy
- Some of the indicators may be capturing socio-economic differences across municipalities not so much related to credit constraints or credit risk

Some minor comments

- The paper is very long – streamlining of text, putting figures to appendix etc.
- Indicator for household indebtedness: should ideally be defined as a ratio of debt to income or wealth, not as level of debt outstanding

In conclusion

- The paper contributes to our understanding of heterogeneous effects of macroprudential policy on local house price dynamics – extensive and very policy-relevant analysis
- Think about:
  - How to frame the story, give more context to the economic significance and meaning of results
  - What your policy index and the proxies for high-risk/credit-constrained households are measuring
  - Alternative identification strategies