

Balancing Act: the Link between Monetary Policy and Financial Stability

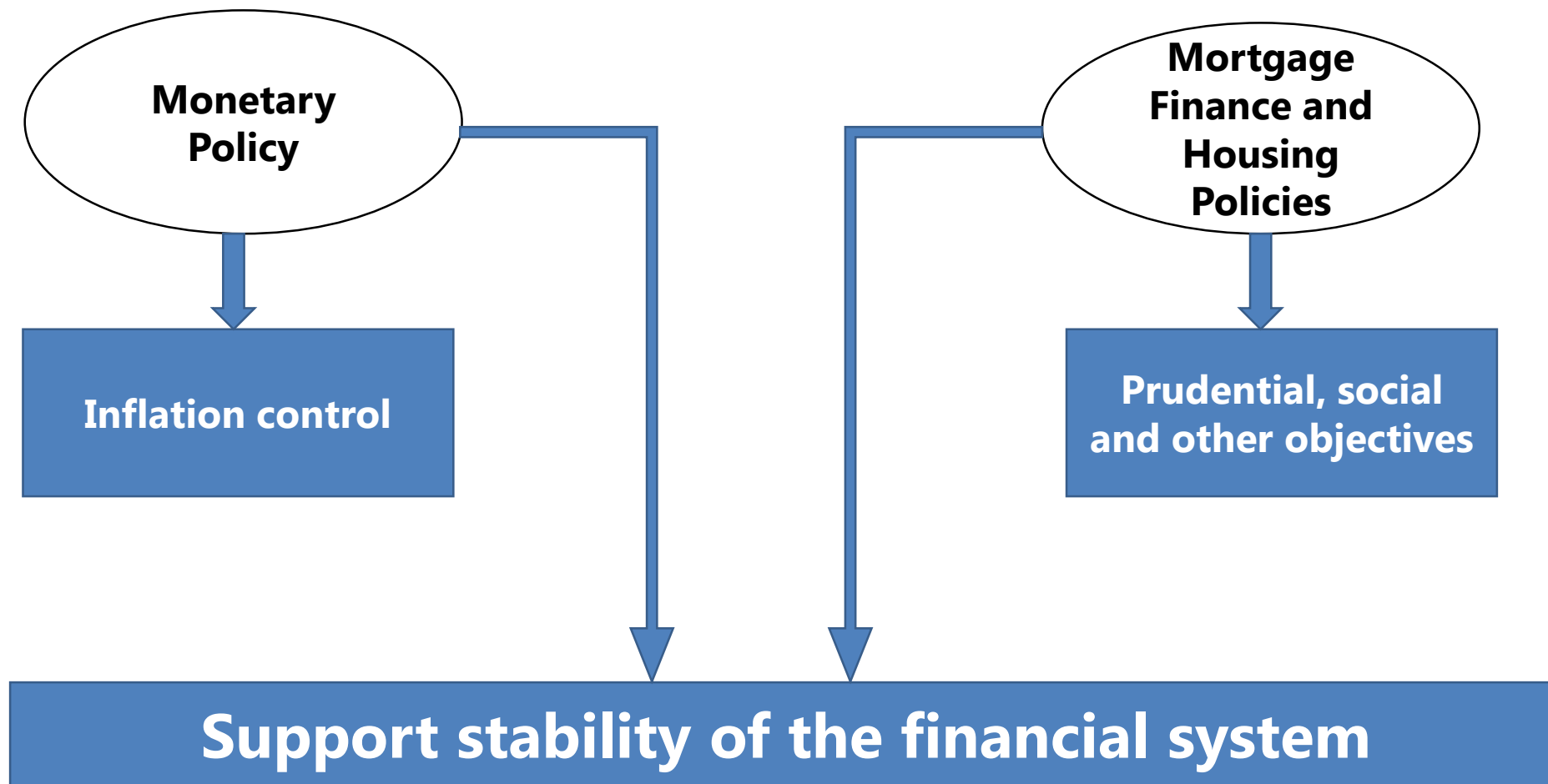
CMHC National Housing Conference
22 November 2018



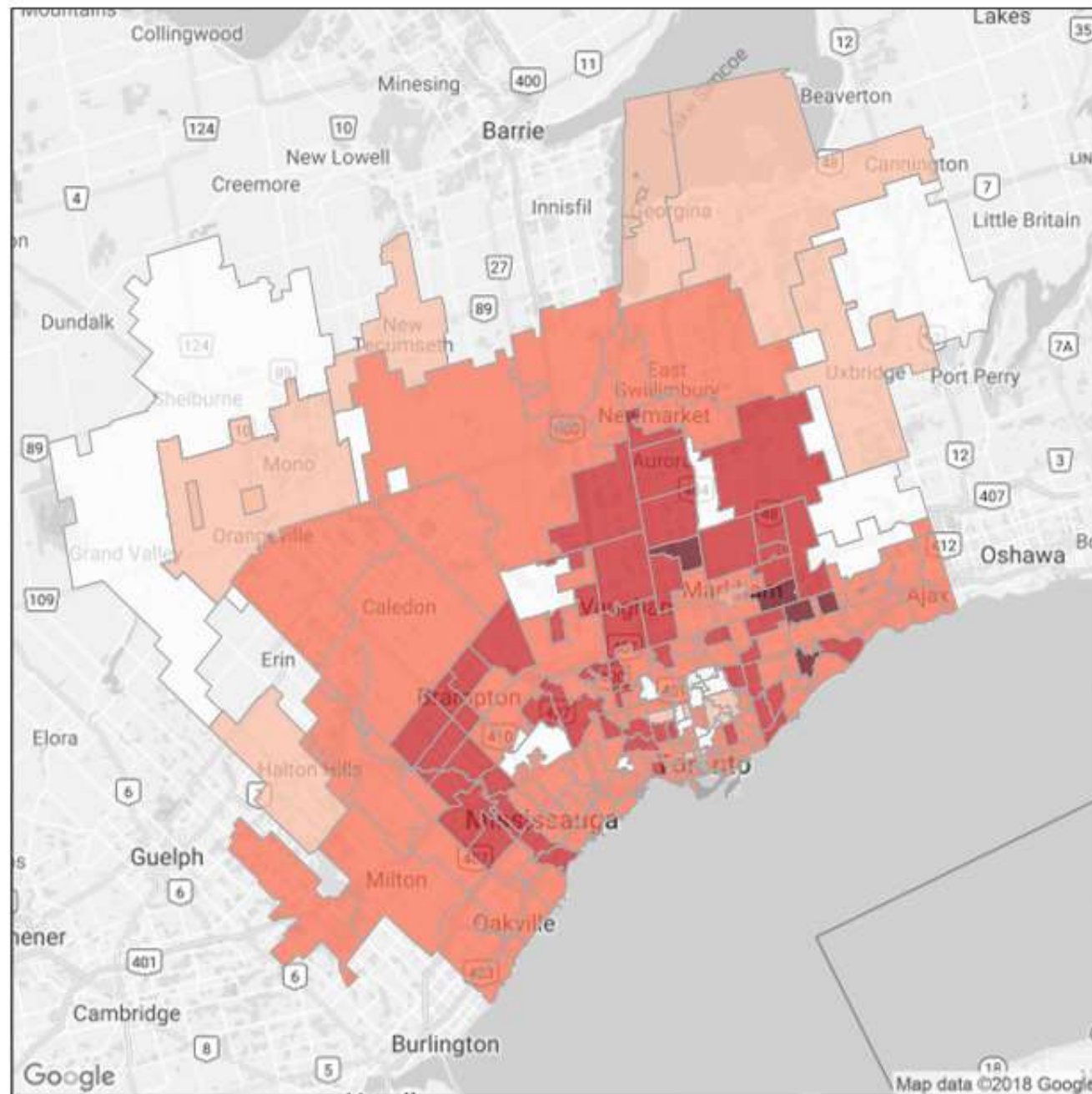
Carolyn A. Wilkins






Senior Deputy Governor
Bank of Canada

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

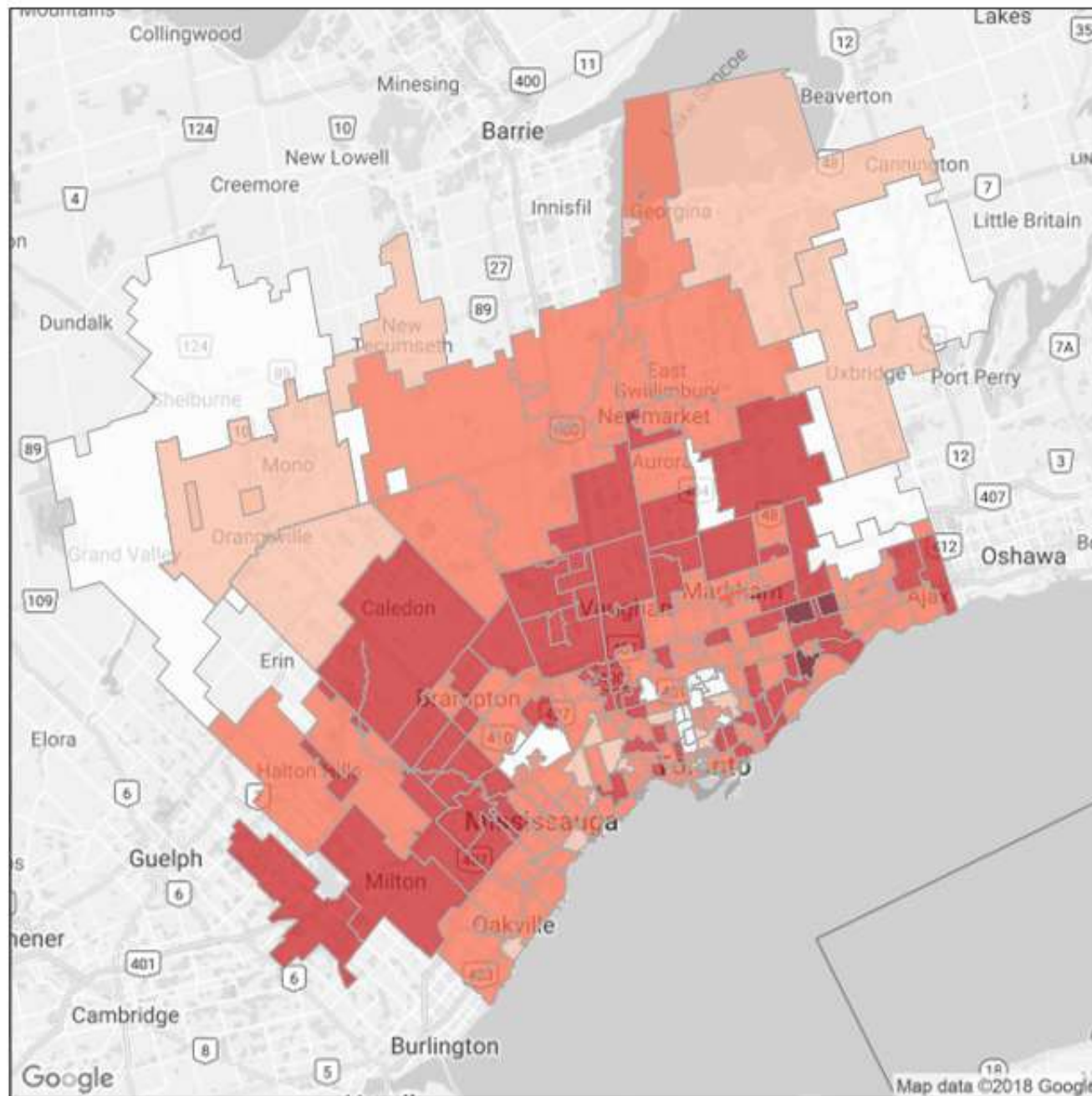


Loan-to-income ratios in Greater Toronto Area 2013



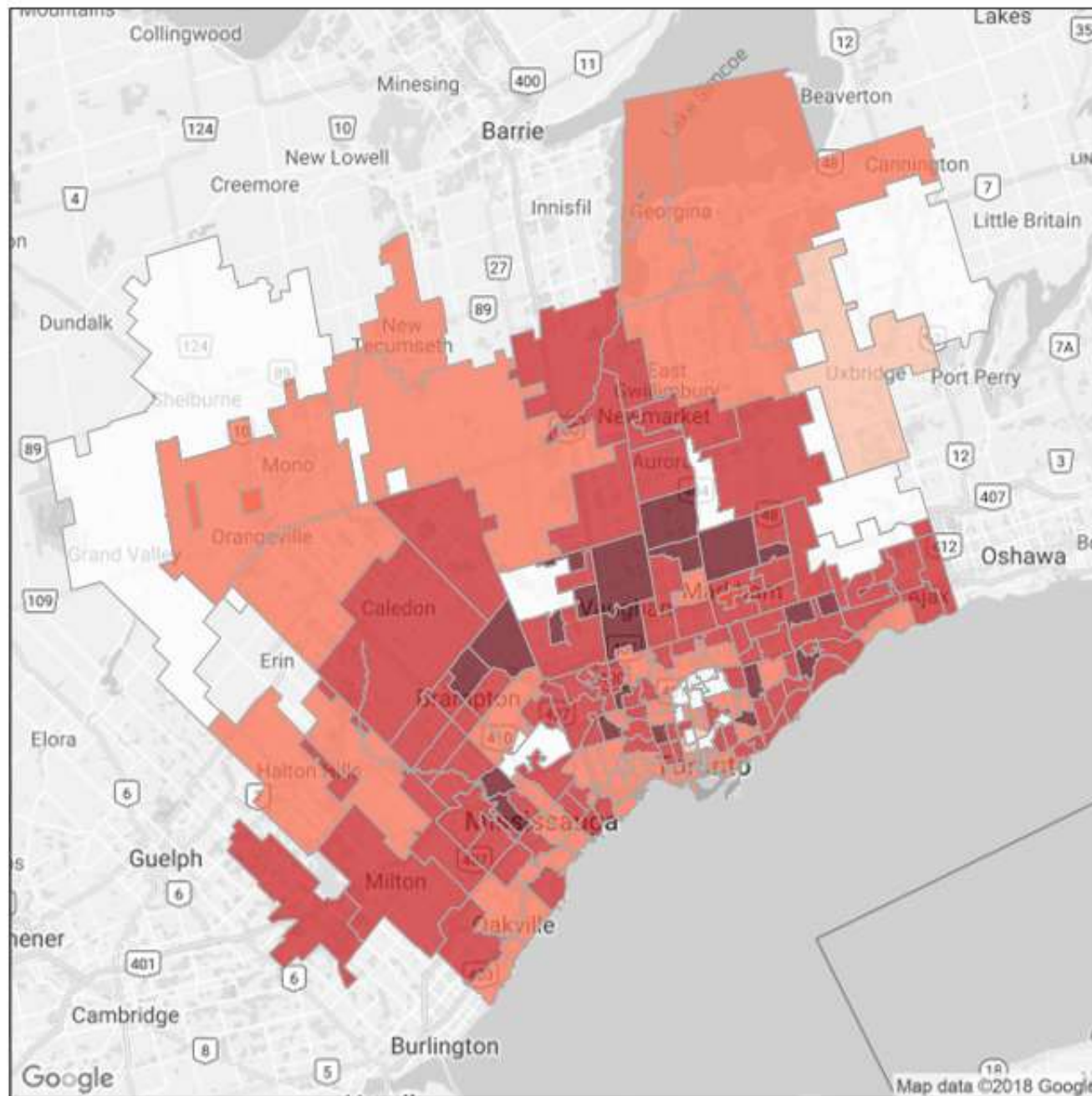
Legend:  N/A  <350  350-400  400-450  >450

Loan-to-income ratios in Greater Toronto Area 2014



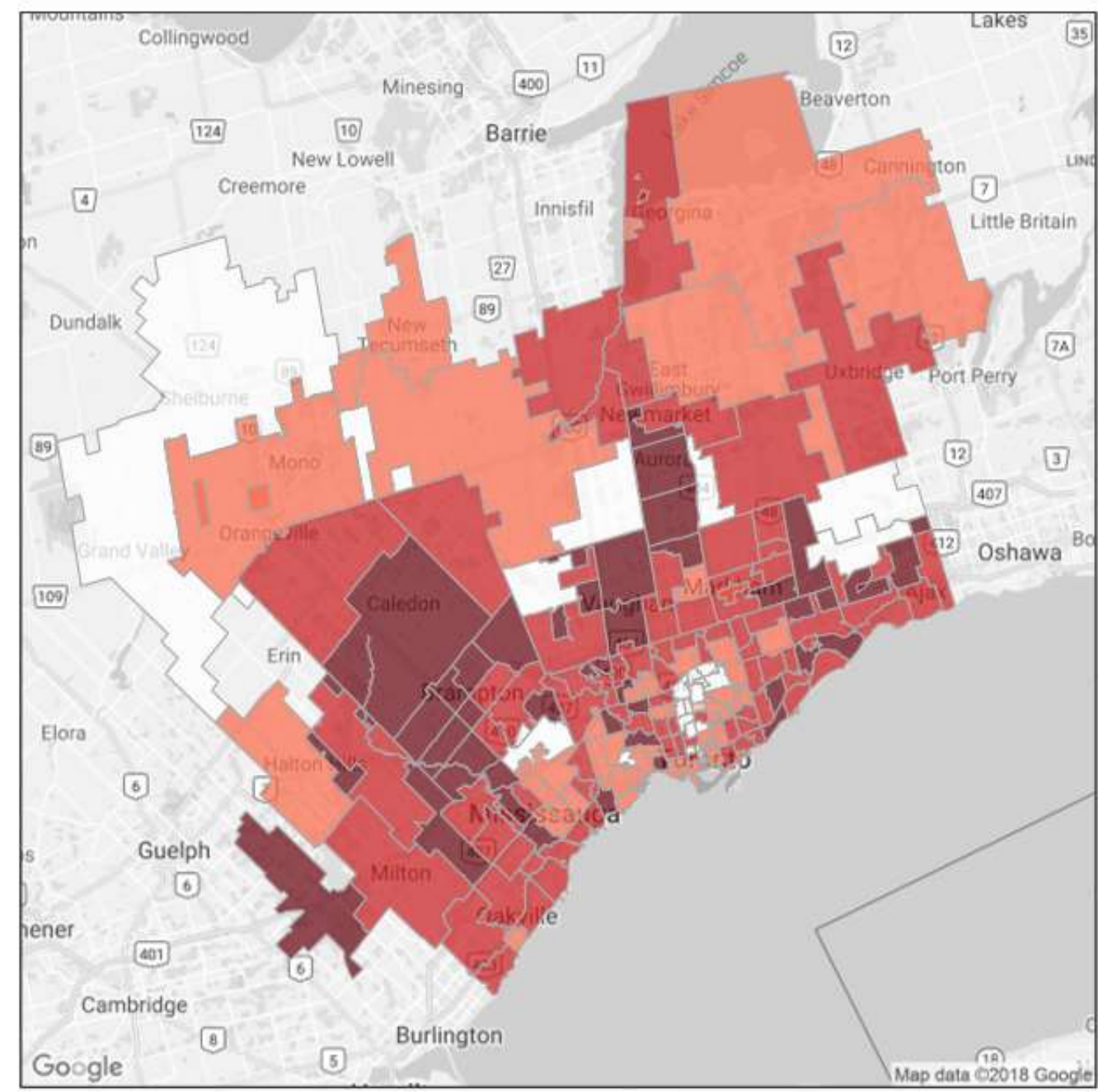
Legend: N/A <350 350-400 400-450 >450

Loan-to-income ratios in Greater Toronto Area 2015



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

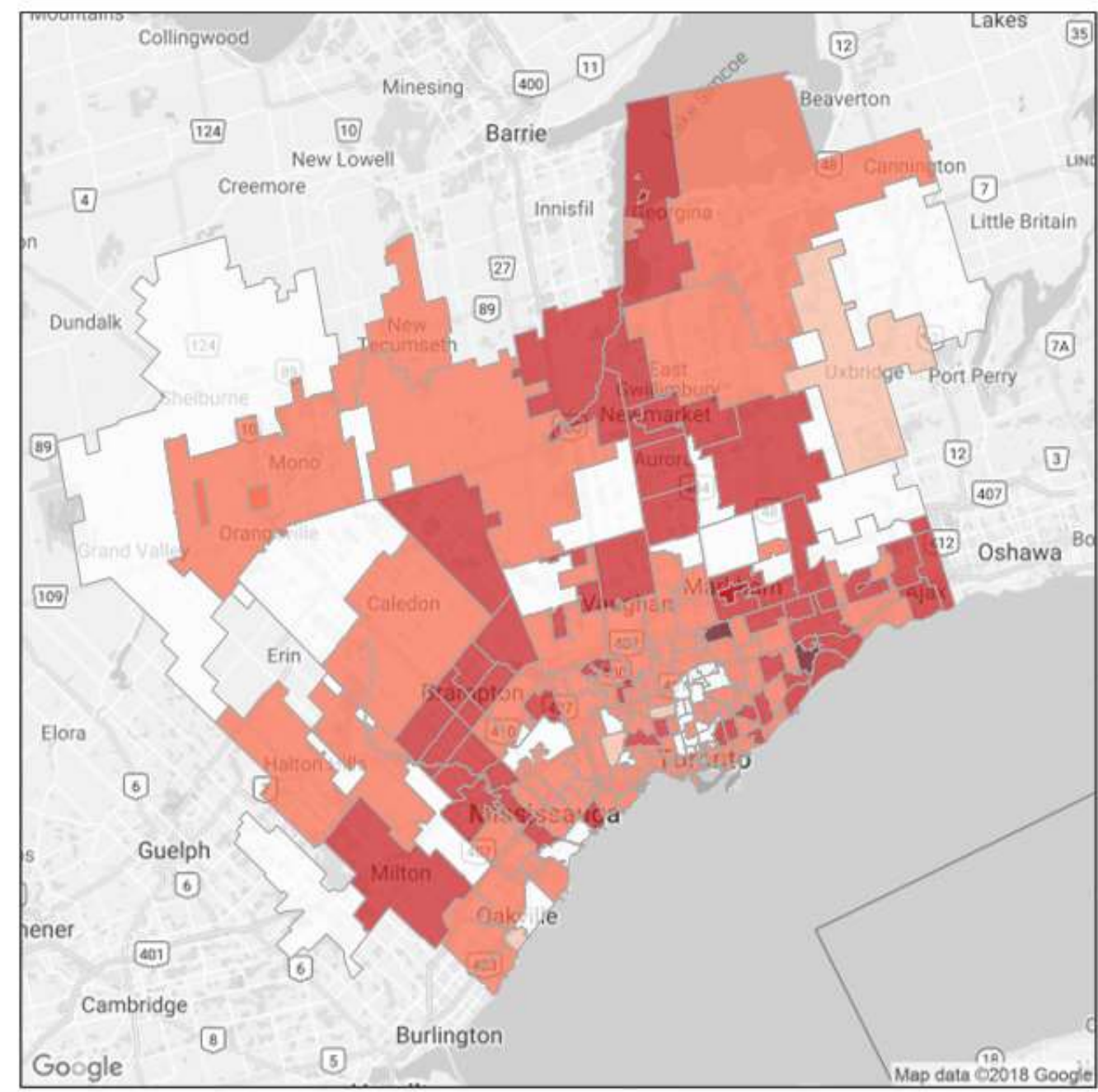
Loan-to-income ratios in Greater Toronto Area 2016



Legend for Loan-to-income ratios:

- N/A
- <350
- 350-400
- 400-450
- >450

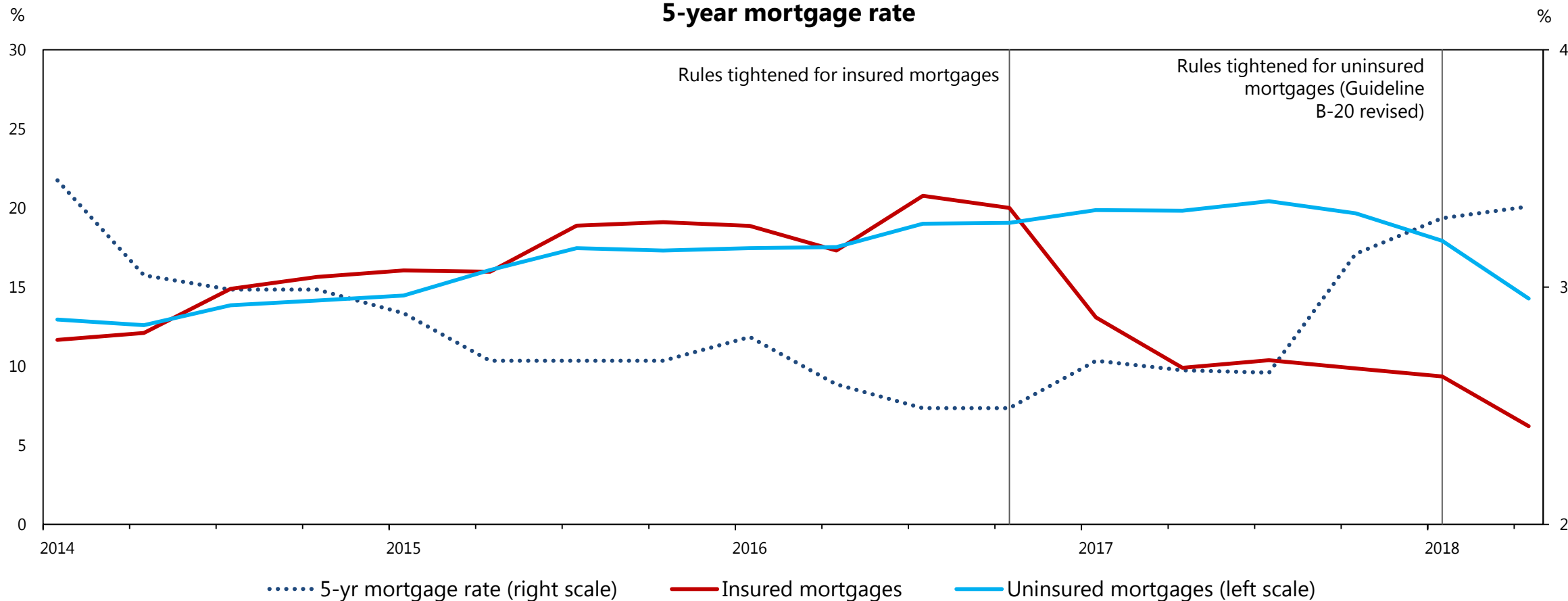
Loan-to-income ratios in Greater Toronto Area 2017



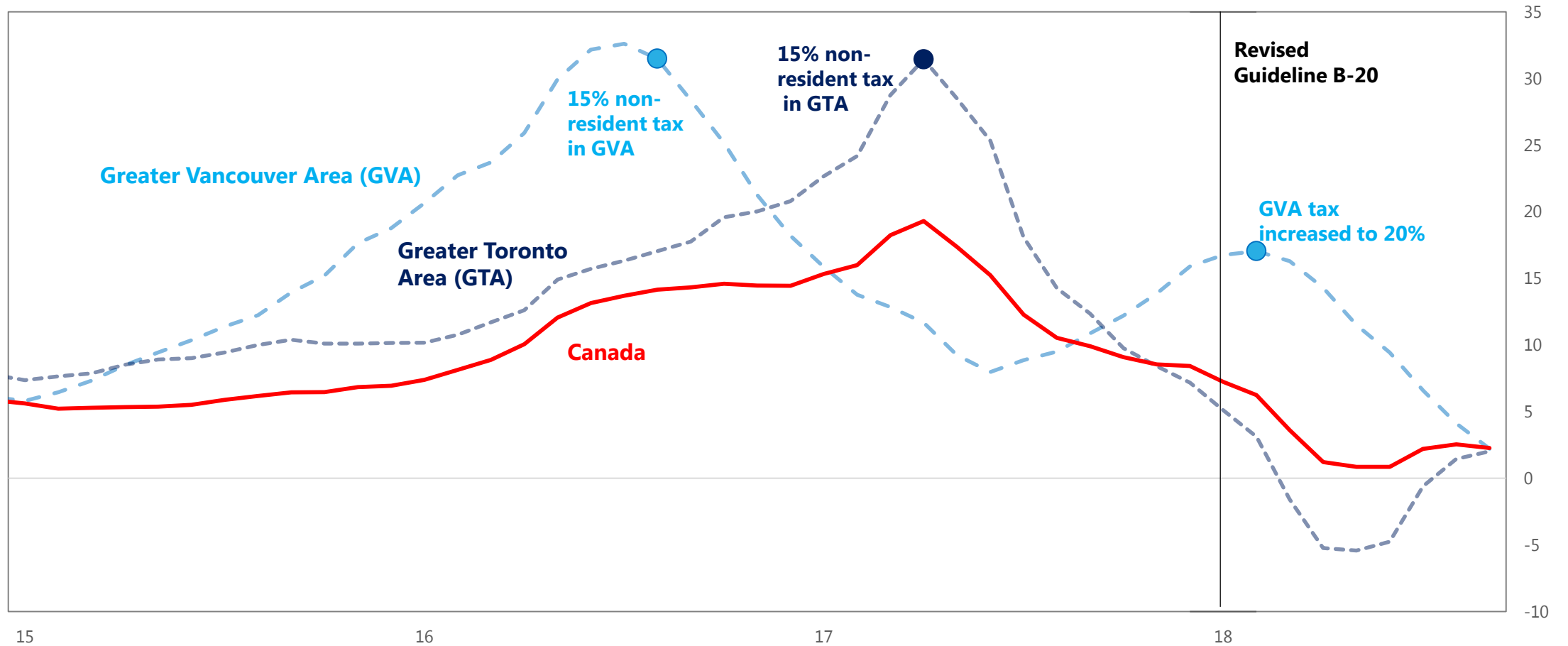
Legend for Loan-to-Income Ratios:
□ N/A □ <350 □ 350-400 □ 400-450 □ >450

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**

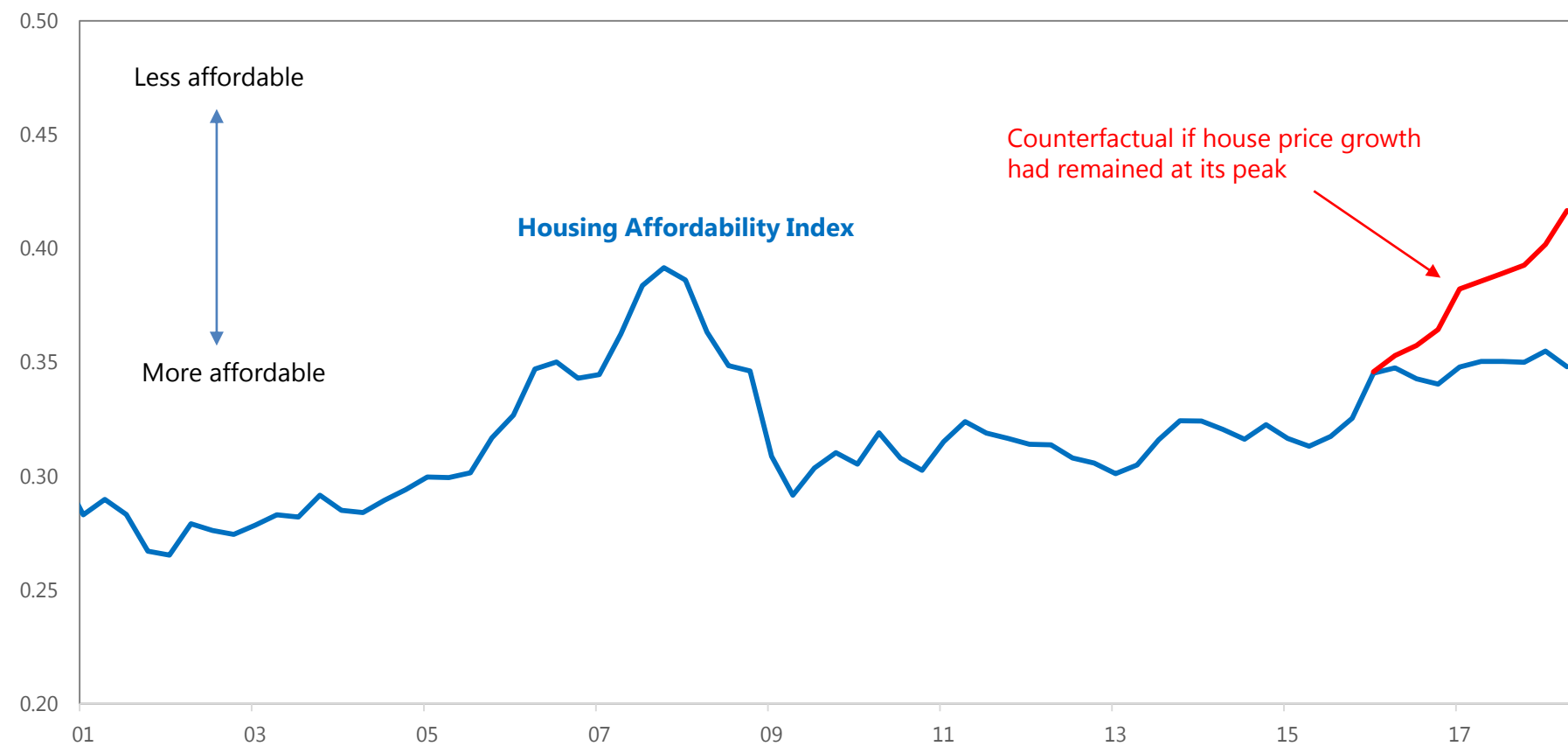


...and have slowed the housing market to a more sustainable pace



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

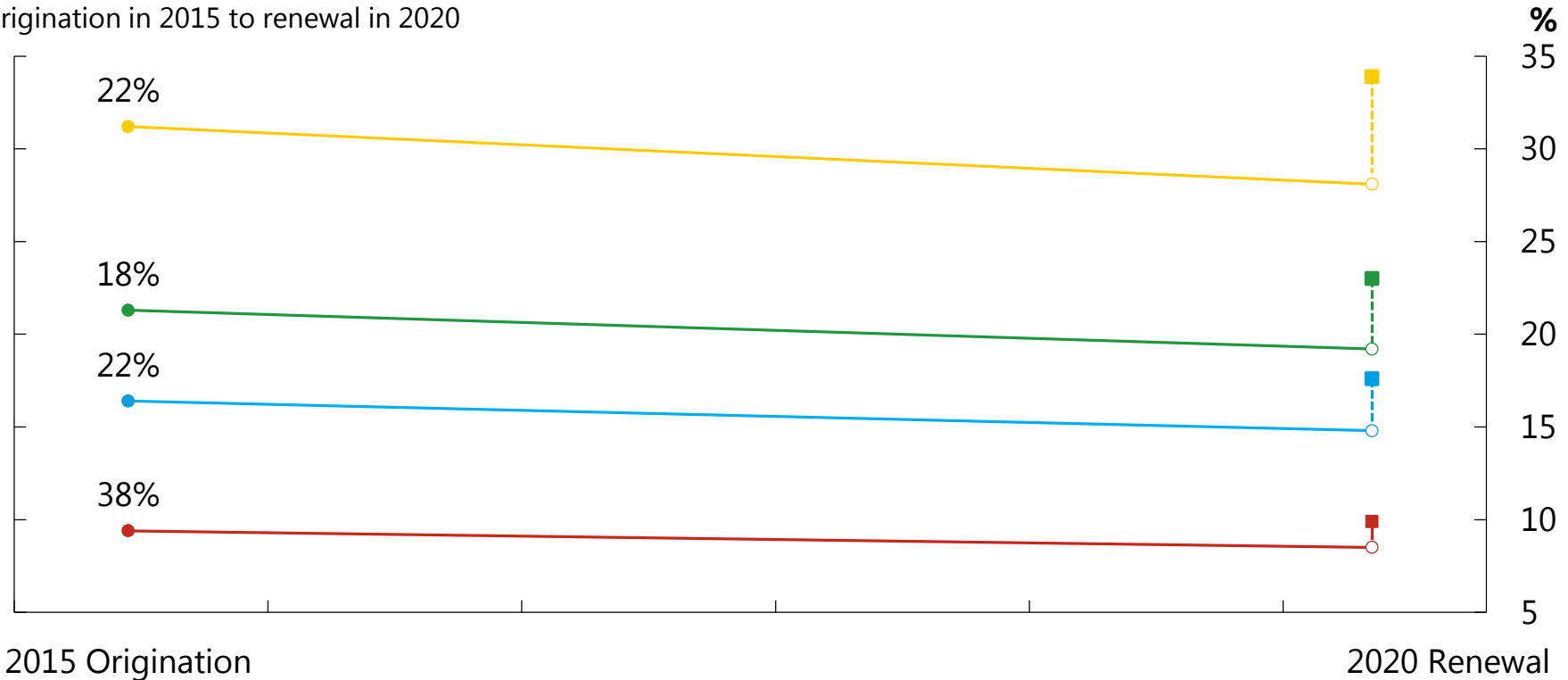
Ratio Average cost of servicing a new mortgage, as a share of disposable income



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 350% and 450%

— Loan-to-income ratio between 250% and 350%

— 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?