

Macroprudential Restrictions and Housing Supply in Australia

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ECONOMICS

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Executive Summary

Australia's housing affordability challenge is fundamentally the result of a persistent mismatch between strong underlying demand and chronically constrained supply. Planning systems, land availability, infrastructure charging and construction costs are widely recognised as the primary constraints on new housing delivery. By contrast, the role of housing finance settings, particularly macroprudential regulation, has received comparatively limited scrutiny.

This report examines the evolution of macroprudential regulation in Australia and its interaction with housing finance, competition and housing outcomes. It does not argue that macroprudential policy caused Australia's housing shortage. It argues that, in a market with structurally constrained supply, the cumulative tightening of housing finance has reduced supply responsiveness, worsened equity and impaired efficiency. It also does not call for broad credit loosening, nor for the relaxation of capital standards. It is a call for recalibration, periodic review and governance reform, so that emergency or precautionary measures do not become permanent constraints divorced from prevailing risk conditions.

Since the Global Financial Crisis, Australia has progressively layered Basel-aligned capital reforms with domestic macroprudential tools, including investor lending benchmarks, caps on interest-only lending, higher serviceability buffers and limits on high debt-to-income lending. A well-functioning housing finance system must also be efficient, competitive and capable of supporting broad access to home ownership and new housing delivery. This cumulative tightening of macroprudential and supervisory controls has unwound some of the benefits that flowed from the implementation of the Campbell reforms under the Hawke/Keating government.

The report finds that this accumulation has altered the functioning of Australia's housing finance system in three important ways.

First, it has reduced competition in mortgage lending by compressing credit assessment toward regulatory norms, raising compliance costs and limiting lenders' ability to differentiate on risk assessment and pricing. The banking system has become less dynamic and less responsive to diverse borrower circumstances.

Second, macroprudential restrictions have impaired efficiency by denying access to credit to borrowers who have the capacity to service a mortgage at market prices. In doing so, they have prevented mutually advantageous transactions, reduced housing turnover and labour mobility and further distorted the housing market.

Third, and most critically, the cumulative tightening of credit has had significant equity implications. Macroprudential restrictions allocate scarce housing credit by wealth rather than by repayment capacity. Households with existing assets, multiple income streams, or housing equity are better able to satisfy prudential thresholds, while first home buyers and renters, despite stable incomes, are disproportionately excluded.

These equity effects have triggered further policy responses. As tighter lending standards have shifted housing demand toward more financially secure borrowers, political concern has grown about investor participation in the housing market. Subsequent macroprudential measures targeting investors have not reduced housing demand in aggregate but have reallocated costs. Higher borrowing costs imposed on investors are passed through to renters, especially in a supply-constrained market. At the same time, first home buyers face a double burden of higher rents and greater difficulty accessing finance.

The report also addresses the common counterargument that easing access to finance in a supply-constrained market simply inflates house prices. While 'let it rip' policies would have this effect, the report demonstrates that housing supply responses are slow, uneven and lagged rather than absent. Restricting access to finance may dampen prices temporarily, but when applied persistently in a market with structural supply constraints, it risks entrenching undersupply and worsening affordability and equity over time.

A central finding of the report is that Australia's macroprudential governance framework lacks explicit oversight of cumulative impacts and housing supply interactions. Regulators are acting consistently and

rationality within their mandates, but those mandates were not designed for a housing market characterised by chronic supply shortages.

The report concludes that Australia's macroprudential framework would benefit from reform, not relaxation. It calls for:

- an independent, eminent-person review of the cumulative impact of macroprudential restrictions on residential construction, competition, and equity of access to housing finance, including pre-2019 measures and Basel-aligned reforms; and
- amendments to the role of the Council of Financial Regulators to explicitly consider housing supply and equity implications when calibrating prudential settings.

Such reforms would strengthen governance, improve transparency and ensure that Australia's macroprudential framework continues to support both financial stability and homeownership.

Introduction

Australia's housing affordability challenge has become one of the most persistent and economically significant policy issues facing governments. Strong population growth, changing household preferences and rising expectations for housing quality have combined with structural constraints to produce a sustained shortfall in new dwelling supply. The result has been prolonged upward pressure on prices and rents, declining affordability for first home buyers and growing distributional and intergenerational inequities.

Public debate has rightly focused on the role of planning systems, land availability, infrastructure provision and construction costs in constraining housing supply. These factors are central to understanding why new home building has failed to keep pace with demand. However, housing supply is not determined by planning and construction alone.

New homes are only delivered when a broader set of economic and institutional conditions align.

A useful way to frame the conditions required for new housing supply is through what this report describes as the **three 'C's'**:

- **Consumer confidence** in the housing market,
- **Council approval** to build, and
- **Access to credit**.

All three are necessary. If anyone is missing, new housing supply will be constrained regardless of conditions elsewhere in the system.

Consumer confidence reflects households' willingness to commit to large, long-term financial decisions. It is shaped by expectations about employment, income growth, interest rates and future housing prices. Without confidence, demand for new homes weakens, sales of new homes fall and projects fail to proceed.

Council approval encompasses planning systems, zoning, development assessment processes, infrastructure coordination and charges, fees and taxes. Delays, uncertainty and rising compliance costs at the local government level directly add to the cost of delivering a new home and restrict the volume and timing of new housing supply. These issues are well documented and remain among the most binding constraints on housing delivery.

Access to credit is the third and often least visible condition, but it is no less essential. Housing is a capital-intensive good. New homes cannot be built at scale without finance for purchasers, developers and builders. Credit determines whether approved projects reach financial close, whether presales can be achieved and whether construction can commence.

This report focuses exclusively on the third 'C', access to credit. In the current environment, constraints on housing finance may not be the single largest barrier to new housing supply. Planning delays, infrastructure costs and construction capacity dominate. However, access to credit is unique among the three conditions in that it is directly influenced by Australian Government policy settings, particularly through prudential regulation and macroprudential oversight.

By contrast, consumer confidence is influenced by a wide range of global and domestic economic forces that are not easily controlled by government, while council approval processes are largely determined by state and local governments and involve complex institutional reform. Macroprudential regulation, by comparison, sits squarely within the Australian government's policy domain and within the Treasury portfolio.

The central question addressed in this report is therefore not whether macroprudential regulation is the most important determinant of housing supply, but whether its design, calibration and accumulation have unintentionally constrained the delivery of new homes in a market already characterised by structural supply rigidities.

The report argues that even when individual macroprudential measures are justified on financial stability grounds, their cumulative effect is much more important, reducing the responsiveness of housing supply by limiting access to credit at critical points in the development cycle. In a system with long lead times and high fixed costs, even modest constraints on finance can delay construction or prevent new housing from being built entirely.

Understanding this interaction is essential to addressing Australia's housing affordability challenge. Improving planning systems and restoring confidence are necessary but insufficient if access to credit is progressively tightened without regard to housing supply conditions. This report therefore examines the evolution of macroprudential regulation in Australia, its interaction with housing finance and construction and the governance framework within which these decisions are made.

While access to credit alone cannot resolve Australia's housing supply shortfall, it can prevent supply from responding even when confidence improves and approvals are granted. In this sense, credit policy acts as a binding constraint at the margin, particularly in capital-intensive segments such as apartments and infill development.

1. The Campbell Inquiry and the Credit-Enabling Era

1.1 Why the Campbell Inquiry was initiated

The Australian Financial System Inquiry, commonly referred to as the Campbell Inquiry, was established in 1979 against a backdrop of significant structural weaknesses in Australia's banking and financial system. At the time, the system was characterised by heavy regulation, limited competition and an extensive array of direct controls on credit allocation and pricing.

Interest rate ceilings, quantitative lending controls, restrictions on bank activities and barriers to entry had produced a highly segmented and inward-looking financial sector. While this framework had delivered stability in earlier decades, by the late 1970s it was increasingly viewed as inefficient, uncompetitive and ill-suited to a modern, open economy. Credit rationing was common, financial innovation was constrained and borrowers' access to finance depended heavily on institutional status rather than underlying creditworthiness.

The Campbell Inquiry was initiated not in response to a housing crisis, but as part of a broader economic reform agenda. Its core objective was to modernise the financial system so that it could allocate capital more efficiently, support economic growth and integrate Australia more fully into global financial markets.

1.2 Competition in banking prior to reform

Prior to the Campbell reforms, competition in Australian banking was limited. A small number of major banks dominated the market, operating within tightly prescribed regulatory boundaries. Product differentiation was minimal and consumer choice was narrow.

Non-bank financial institutions existed, but their activities were often restricted or subject to differential regulation that distorted competition. Credit availability was shaped as much by regulatory quotas and institutional privileges as by assessments of borrower risk or project viability.

This environment limited the capacity of the financial system to respond flexibly to changes in demand, including demand for housing finance. It also entrenched conservative lending practices that prioritised balance-sheet protection over broader economic responsiveness.

1.3 Key recommendations of the Campbell Inquiry

The Campbell Inquiry recommended a comprehensive shift away from direct controls toward a market-based financial system. Key recommendations included:

- the removal of interest rate ceilings and quantitative lending controls,
- increased competition through the entry of new domestic and foreign banks,
- a more neutral regulatory treatment of banks and non-bank financial institutions,
- reliance on prudential supervision rather than credit allocation directives,
- greater scope for product innovation and risk-based pricing.

These recommendations reflected a belief that competitive forces, supported by sound prudential oversight, would deliver better economic outcomes than detailed regulatory prescription.

Importantly, the Inquiry did not advocate deregulation in the absence of safeguards. Rather, it envisaged a system where prudential supervision would ensure stability while allowing institutions to compete on efficiency, service quality and risk assessment.

1.4 Implementation and transition through the 1980s and early 1990s

Implementation of the Campbell recommendations occurred progressively through the 1980s and early 1990s. Interest rates were deregulated, foreign banks were licensed to operate in Australia and competitive pressures intensified across the financial sector.

This transition was not without disruption. Increased competition exposed weaknesses in governance, risk management and capital adequacy at several institutions. A number of banks and financial institutions failed or were absorbed during the late 1980s and early 1990s, including the State Bank of South Australia, the State Bank of Victoria, the State Bank of Tasmania and Pyramid Building Society.

These failures are often cited as evidence of the risks associated with financial deregulation. However, they occurred in the context of a broader economic downturn, poor asset quality, a technological revolution and inadequate internal controls, rather than as a simple consequence of increased competition.

The failures of the early 1990s ultimately strengthened prudential supervision without reversing the broader gains in competition and credit access delivered by financial system reform.

1.5 The macroeconomic environment of the early 1990s

The early 1990s were marked by significant macroeconomic stress. Australia experienced a deep recession, high unemployment, weak income growth and very low levels of net overseas migration. Housing demand fundamentals were subdued and consumer confidence was fragile.

Despite these conditions, access to housing finance improved markedly relative to earlier decades. Competition among lenders increased, mortgage products diversified and credit assessment shifted toward borrower-level evaluation rather than institutional rationing.

This expansion of access to finance did not eliminate risk, but it materially changed the conditions under which housing supply could respond once demand recovered.

1.6 Housing supply outcomes in the 1990s

The interaction of increased credit availability with recovering economic conditions produced a notable housing supply response. By 1994, Australia recorded the highest volume of new home commencements on record, a level that was not surpassed again until the Australia's record apartment boom 20 years later.

This outcome is particularly striking given the broader economic context. High unemployment, weak population growth and the aftermath of institutional failures would normally be expected to suppress construction activity. Instead, once confidence stabilised, the housing sector demonstrated a strong capacity to respond.

The experience of the 1990s therefore underscores a point for contemporary policy. Flexible access to housing finance can enable supply responses even in challenging economic environments. While deregulation was not costless, the overall effect of increased competition and access to credit was to expand the system's capacity to deliver new housing.

1.7 Lessons for contemporary policy

The lesson from the Campbell era is not that financial deregulation is inherently beneficial, nor that risk should be tolerated without restraint. Rather, it is that competition and credit flexibility play a role in enabling housing supply, particularly when other conditions (supply elasticity and confidence) improve.

In today's context, where planning constraints, infrastructure costs and construction complexity are far more binding, the sensitivity of housing supply to finance settings is likely to be even greater. Understanding this historical experience is therefore essential to assessing the cumulative impact of modern macroprudential regulation.

2. The Global Financial Crisis and the Shift to Macroprudential Tightening

2.1 The origins of the Global Financial Crisis

The Global Financial Crisis (GFC) of 2007–09 originated in the United States housing and financial system, not in Australia. The crisis was driven by the widespread origination and securitisation of sub-prime mortgages, weak underwriting standards and complex financial products that obscured underlying credit risk.

Central to the crisis were government-sponsored entities Fannie Mae and Freddie Mac, which played a major role in supporting the US mortgage market. As house prices fell and mortgage defaults rose, losses spread rapidly through securitised mortgage markets, destabilising major financial institutions and freezing global credit markets.

The most severe impacts of the crisis were concentrated in the United States and parts of Europe. Banking systems in these jurisdictions experienced widespread failures, government bailouts and prolonged economic disruption. The housing downturn in the US was accompanied by sharp increases in mortgage delinquency, foreclosure and negative equity.

2.2 Australia's experience during the GFC

Australia's experience during the GFC was markedly different. Australian banks had limited exposure to US sub-prime mortgage products, lending standards had remained comparatively conservative despite the Campbell reforms and the Australian housing market proved resilient.

Mortgage arrears and delinquency rates in Australia rose only modestly, remaining exceptionally close to zero. Unemployment increased temporarily but did not reach the levels observed in the United States or Europe. Importantly, there was no systemic housing credit collapse and no widespread bank failures.

Analysis by Australian regulators and financial commentators, consistently noted the low risk of contagion to the Australian banking system. Australia entered the crisis with strong bank capitalisation, full-recourse lending and a housing market underpinned by population growth and relatively sound borrower balance sheets.

By contrast, delinquency rates on single family residential mortgages for commercial banks in the United States rose dramatically during the crisis, from a pre-GFC trough of just 1.4 per cent to a 2010 peak of 11.5 per cent¹. Australia's arrears rates remained a fraction of those observed in the US and other advanced economies, highlighting the fundamentally different and conservative lending restrictions and risk profile of the Australian mortgage market.

2.3 The global regulatory response: Basel reforms

Despite the comparatively strong performance of the Australian financial system, the global regulatory response to the GFC was broad and far-reaching. International policymakers sought to reduce the probability and severity of future financial crises through stronger capital, liquidity, and risk management standards.

This response took shape through a series of reforms developed by the Basel Committee on Banking Supervision.

¹ Federal Reserve Bank of St Louis, 2025

- **Basel III (2010)** introduced higher minimum capital requirements, new capital buffers and enhanced risk-weighting frameworks.
- **Liquidity reforms** followed, including the Liquidity Coverage Ratio and Net Stable Funding Ratio, designed to reduce reliance on short-term wholesale funding.
- **Post-Basel III enhancements** further increased capital expectations for systemically important banks and strengthened supervisory stress testing.

Australia implemented these reforms in full and ahead of other economies with less stable financial sectors.

2.4 Transmission of global reforms into the Australian housing finance system

Although the GFC did not originate in Australia, Basel-aligned reforms materially altered the domestic lending environment. Higher capital requirements increased the cost of housing finance, particularly for loans perceived as higher risk. Supervisory expectations increasingly focused on system-wide risk rather than institution-specific behaviour.

Over time, this global prudential architecture created the foundation upon which domestic macroprudential tools were layered. The result was a gradual shift from a credit-enabling framework toward a credit-constraining one, even as measured systemic risk in Australia remained low.

2.5 Domestic macroprudential initiatives: timeline and rationale

Investor lending growth benchmarks

Investor lending benchmarks were introduced in the mid-2010s in response to strong house price growth and rising investor participation, particularly in Sydney and Melbourne. Regulators expressed concern that rapid growth in investor lending could amplify housing market cycles and increase financial stability risks.

Media coverage at the time frequently focused on investor activity, fears of housing market overheating and warnings of speculative behaviour. Headlines commonly referenced investor-driven price booms and potential apartment oversupply in inner-city markets.

Caps on interest-only lending: December 2014 and March 2017

Caps on interest-only lending were introduced to reduce the share of loans perceived as higher risk. Regulators argued that interest-only loans could leave borrowers vulnerable to repayment shocks when principal repayments commenced.

This initiative followed extensive media discussion of interest-only lending growth, investor leverage and settlement risk in off-the-plan apartment markets. Coverage often highlighted concerns about borrowers' capacity to refinance or absorb price declines.

These measures played a role in reducing the level of investment in new home supply in Australia, especially for apartments and were part of the explanation for why the number of new apartment commencements fell from 2016 onwards.

Despite the lessons from this experience, that financial regulators should not estimate underlying demand and supply of homes, they have continued to intervene and constrain supply.

Higher serviceability buffers: Mid-pandemic

Serviceability buffers were increased during the pandemic as a precautionary measure in an environment of extreme uncertainty and historically low interest rates. The objective was to ensure borrowers could service loans under higher future rates.

At the time, media commentary focused on rapid house price growth, record-low interest rates and fears that households were over-stretching. While similar buffers were adopted internationally, many jurisdictions later reduced them as rates rose. Australia has retained the higher buffer.

Limits on high debt-to-income lending: November 2025

Limits on high debt-to-income lending were introduced as part of a renewed macroprudential tightening cycle. Regulators argued that highly leveraged borrowers posed heightened risks in an environment of elevated house prices and rising interest rates.

Media reporting again played a role in shaping the context, with frequent references to household debt levels, affordability pressures and warnings of future stress if rates remained higher for longer.

2.6 Media narratives and regulatory timing

A consistent pattern emerges across these initiatives. In each case, heightened media attention to perceived housing market risks preceded or coincided with regulatory intervention. Stories warning of price bubbles, investor excess, settlement risk, or household leverage were prominent in the lead-up to policy action.

While media coverage does not determine regulatory decisions, it forms part of the broader environment in which risk perceptions are shaped. Understanding this context is essential to appreciating why macroprudential tightening continued even as objective indicators of systemic risk remained benign.

2.7 Summary: a stability response to a foreign crisis

The post-GFC shift toward macroprudential tightening in Australia must be understood as part of a global response to a crisis that did not originate domestically. While the reforms strengthened bank resilience, they also embedded a bias toward precaution and restriction.

In Australia's case, this bias has persisted despite consistently low mortgage arrears, minimal defaults and repeated assessments that the financial system is unquestionably strong. For example, the rate of non-performance of loans and advances in Australian deposit-taking institutions, specifically those that are 90+ days past due, has remained just 0.5-0.7 per cent in recent years. Even including those that are less than 90 days overdue only lifts the rate a little over 1 per cent. The cumulative impact of these measures, more than any single reform, is central to understanding their long-term effects on housing finance and supply.²

² Attachment A. Timeline of Macroprudential Interventions and Media Context

3. Domestic Macroprudential Policy and Governance

3.1 Introduction: stability, efficiency, and competition are complementary objectives

Australia's post-Global Financial Crisis prudential reforms in residential mortgage lending are widely regarded as successful in delivering a strong financial system. Banks are better capitalised, lending standards are more conservative and the system has proven resilient through periods of global financial stress, a pandemic, a recession and the steepest monetary tightening cycle in a generation.

These outcomes matter. A weak or unstable banking system would be deeply damaging to the broader economy. Financial stability is a necessary condition for sustainable growth and for the delivery of new housing at scale.

However, financial stability, economic efficiency and competitive housing finance are not mutually exclusive objectives. They are distinct and ultimately complementary. A system that is safe but increasingly restrictive risks undermining access to credit, weakening competition and impairing long-run housing supply outcomes, particularly in a market where dwellings are both financial assets and essential goods.

From an economic perspective, restricting access to credit for borrowers who can demonstrably service a loan represents an efficiency loss. It prevents mutually advantageous transactions between willing borrowers and lenders and suppresses housing turnover, economic growth, labour mobility and residential construction without delivering proportional gains in systemic stability.

3.2 Competition and efficiency in mortgage lending before the post-GFC tightening

Historically, competition in Australia's mortgage market was driven not only by price, but by product diversity and lender judgement. Banks differentiated themselves through:

varying approaches to income verification and expense assessment,

different tolerance for loan-to-value ratios and borrower risk profiles,

bespoke assessment of self-employed and irregular income borrowers,

product innovation tailored to different household circumstances.

This environment did not imply reckless lending. Rather, it reflected a system in which credit risk was assessed and managed at the lender level, with institutions pricing and allocating risk based on their own balance sheets, experience and competitive positioning.

From an economic perspective, this facilitated mutually advantageous exchange. Where a borrower was willing and able to service a loan and a lender was willing to extend credit at an appropriate price, transactions occurred that supported housing turnover, labour mobility and residential construction.

Competition of this kind expanded access to housing finance for households whose circumstances did not fit narrow templates, but who were nonetheless capable of servicing a mortgage. It also supported housing supply by broadening the pool of buyers able to commission new homes or purchase newly constructed dwellings.

3.3 The post-GFC shift: from lender judgement to regulatory standardisation

Since the Global Financial Crisis, Australia's prudential framework has progressively shifted from lender-based judgement toward regulator-defined constraints. This shift reflects the global regulatory response to financial instability and has been reinforced through a combination of Basel-aligned capital reforms, supervisory expectations, and explicit macroprudential limits on mortgage lending.

Key features of this shift include:

- higher and more standardised capital requirements for residential mortgages,
- prescriptive serviceability buffers applied uniformly across the market,
- limits on high debt-to-income lending,
- supervisory benchmarks targeting particular borrower or loan types,
- intensified compliance and enforcement activity around responsible lending.

Many macroprudential tools currently operate at the level of individual borrower risk, even though systemic instability arises primarily from correlated shocks such as widespread unemployment combined with negative equity.

Individually, these measures are intended to reduce risk. Collectively, they have compressed lending practices toward a narrow regulatory centre. The result is a mortgage market in which lenders increasingly resemble one another, not because competition has intensified, but because deviation from regulatory norms has become costly.

While prudential authorities do not frame these measures as paternalistic, the practical effect of increasingly prescriptive borrower level controls is to substitute regulatory judgement for borrower and lender choice, even where such choices do not materially increase systemic risk.

3.4 How macroprudential accumulation reduces competition and efficiency

The accumulation of macroprudential restrictions affects competition and efficiency in several important ways.

First, it limits product differentiation. When serviceability buffers, DTI limits, and supervisory expectations are tightly specified, lenders have little scope to compete by offering tailored solutions to different borrower types. Innovation becomes risky, as any departure from the regulatory template may attract supervisory scrutiny or higher capital costs.

Second, it raises fixed compliance costs. Large, established banks are better able to absorb the cost of complex regulatory compliance. Smaller lenders, non-bank institutions, and potential new entrants face proportionally higher barriers to entry. Over time, this entrenches market concentration and weakens competitive pressure.

Third, it weakens the role of risk pricing. As lending standards become more standardised, risk is increasingly managed through exclusion rather than pricing. Credit is denied rather than priced appropriately. This raises effective borrowing costs for marginal but serviceable borrowers and impairs the efficient allocation of capital.

From an economic perspective, this represents an unnecessary barrier to mutually beneficial trade. Denying credit to borrowers who can demonstrably service a loan suppresses housing activity, reduces labour mobility, and constrains residential construction without delivering commensurate gains in systemic stability.

3.5 Distributional and equity impacts of tighter lending standards

The tightening of lending standards has not affected all households equally. The impact has been most pronounced for:

- first home buyers,
- younger households with high housing cost exposure relative to income,
- self-employed workers and small business owners,

- households with variable or non-traditional income streams,
- borrowers in higher-priced urban markets.

Many of these households have the capacity to service a mortgage but struggle to satisfy rigid regulatory metrics. In practice, it is increasingly common for households to be denied a loan even where the required mortgage repayments would be lower than the rent they have reliably paid for years.

From an equity perspective, denying credit to borrowers who can service loans at market prices represents a deadweight loss, reducing housing turnover, labour mobility and construction activity without offsetting gains in financial stability. This isn't providing benefit to system security and imposes a high price on those that do not own a home, or homes.

The result is a system in which access to home ownership is increasingly determined by existing wealth rather than repayment capacity. Owner-occupiers with accumulated equity and investors with diversified income streams retain access to finance, while liquidity-constrained households, first home buyers, face exclusion.

This outcome is not an explicit policy objective. It is, however, a predictable consequence of a framework that prioritises uniform risk reduction over differentiated assessment.

3.6 Investor lending, rents and unintended incidence

A further concern with the current macroprudential approach is the apparent use of lending restrictions as a means of suppressing investor participation in the established housing market. Measures announced on 27 November by APRA to limit high debt to income lending are relatively benign they provide the most recent example³. While investor activity is frequently framed as a driver of affordability pressures, using macroprudential restrictions to achieve this outcome can be counterproductive.

Higher borrowing costs imposed on investors are not absorbed in isolation. In supply-constrained rental markets, these costs are passed through to tenants in the form of higher rents. This transmission mechanism is well understood and most pronounced where vacancy rates are low and new supply is slow to emerge.

Investors are also typically the most financially resilient segment of housing market participants. They are more likely to have diversified income streams, accumulated equity, and access to alternative sources of finance. As a result, they tend to be the last cohort to exit the market when credit conditions tighten.

The immediate effect of investor-focused macroprudential tightening is therefore not to displace investors in favour of first home buyers, but to raise borrowing costs across the system. First home buyers experience a double burden: higher rents as investor costs are passed through, and greater difficulty accessing mortgage finance.

From a prudential perspective, this focus is difficult to reconcile with observed risk profiles. Investor loans have historically exhibited lower default rates than owner-occupier loans, and no clear evidence has been provided to demonstrate that investor lending poses greater systemic risk.

This is not an argument for privileging investors, quite the opposite. The dominant presence of investors in the new home building market is a consequence of government interventions into the housing market that have constrained supply. The cost of this is felt most significantly by renters and potential first home buyers.

³ <https://www.apra.gov.au/news-and-publications/apra-to-limit-high-debt-to-income-home-loans-to-constrain-riskier-lending>

In turn, using macroprudential policies to then constrain investors, by limiting access to credit, does not force investors from the market as they remain the most financially solvent participants.

Making investor lending more expensive leads to restricted supply, even if only focused on the established market, the cost of which is borne by renters and potential first home buyers.

In this sense, investor-focused macroprudential tightening does not reduce housing demand in aggregate but reallocates housing access while increasing costs for renters and marginal owner occupiers.

This is a call to policy makers to identify that using macroprudential restrictions should not be used to achieve short-term political prescriptions. 'Frank and fearless' advice from senior policy makers is warranted to identify this systemic flaw.

3.7 Policy incoherence and government intervention

The shortcomings of the current framework are reinforced by policy incoherence. While regulators restrict access to finance on risk grounds, governments simultaneously expand schemes designed to support higher-risk borrowers through guarantees, shared equity and grants.

These policies operate in opposite directions. Their coexistence suggests a lack of shared framework or transparency regarding objectives, risk, and trade-offs. Such contradictions are only possible in a system where macroprudential decisions are insulated from broader housing and economic policy considerations.

3.8 Implications for competition, supply, and governance

Reduced competition in mortgage lending has consequences beyond individual borrowers. It affects housing turnover, labour mobility, construction feasibility, innovation in finance and long-term productivity.

A banking system that is unquestionably strong but increasingly exclusionary is resilient, but less effective at serving the needs of the economy. Without explicit oversight of cumulative effects, macroprudential policy risks drifting toward ever greater restriction even as its marginal benefits decline and its long-run costs grow.

Ensuring financial stability should not require reserving home ownership for the already wealthy. A well-calibrated framework should allow banks to compete to lend across a range of risk profiles while protecting the system from correlated shocks.

This requires recalibration, transparency and governance arrangements that recognise housing supply and access as integral components of economic stability, not externalities.

4. Macroprudential Policy, Demand Incidence, and Housing Outcomes in a Supply-Constrained Market

4.1 Introduction: credit, demand, and policy misalignment

It is widely accepted in economic analysis that access to mortgage credit primarily affects the demand for housing rather than its supply. When borrowing constraints are relaxed, households have greater purchasing power and are able to bid more for dwellings. In markets where housing supply is constrained, this additional demand is capitalised into higher prices rather than higher quantities.

This observation is at best, incomplete.

The central issue addressed in this chapter is not whether mortgage credit affects housing demand, but whether macroprudential restrictions are an effective or appropriate tool for improving housing outcomes in a market characterised by chronic supply constraints.

Even if housing supply is highly inelastic in the long run, macroprudential restrictions are a poor tool for improving affordability. They operate by rationing credit rather than reducing underlying demand or improving price elasticity. Instead macroprudential restrictions shifting housing ownership toward wealthier households, worsening equity outcomes, and increase rents, worsening access to homeownership.

In a supply-constrained market, such as Australian housing, credit tightening reallocates housing rather than making it cheaper. Moreover, in markets where housing supply is highly inelastic, changes in credit conditions primarily affect *who* can access housing rather than *how much* housing is delivered. Credit tightening does not eliminate demand for housing. It reallocates housing toward those with existing wealth, collateral and alternative sources of finance.

From an equity perspective, this distinction matters. Policies that restrict access to credit, such as observed in Australia over the past decade, in an inelastic supply environment, raise rents, increase wealth inequality and exclude first home buyers without delivering durable affordability gains through increased supply.

On the other side of the supply and demand ledger: macroprudential tightening does not reduce the underlying need for housing. Demand for housing is a function of the population and the average number of people per household. While population and household density change over time, they are not generally influenced by macroprudential decisions.

For these reasons, credit restrictions worsen affordability and equity outcomes even when supply is inelastic.

4.2 Housing supply constraints and the limits of price signals

Australia's housing market is characterised by deep structural constraints on supply. Planning systems, infrastructure charging, land release processes, construction costs, and long development lead times severely limit the responsiveness of new dwelling supply to changes in prices or interest rates.

In an inelastic supply environment, policies that operate by suppressing demand through credit restriction do not create durable affordability gains. They alter the distribution of housing consumption rather than increasing housing availability.

4.3 Credit restriction as rationing, not affordability reform

Macroprudential tightening operates by rationing access to mortgage credit. It does not reduce the number of households requiring housing, nor does it reduce population growth, household formation, or the underlying demand for shelter.

Instead, it determines **who** is able to participate in the housing market.

Households with accumulated wealth, existing housing equity, diversified income streams, or access to alternative finance are better positioned to absorb tighter credit conditions. Liquidity-constrained households, particularly first home buyers and renters, are not.

In this way, credit restriction reallocates housing toward those who already hold wealth. It does not make housing cheaper in any meaningful or sustained sense. Prices may soften temporarily, but the fundamental affordability challenge remains unresolved.

4.4 Welfare and efficiency consequences of credit rationing

From an economic perspective, credit restrictions that deny finance to borrowers who can demonstrably service a loan represent an unnecessary barrier to mutually beneficial exchange. Where a borrower is willing and able to meet repayments and a lender is willing to extend credit at an appropriate price, preventing that transaction reduces economic welfare.

- This inefficiency manifests in several ways:
- suppressed housing turnover and reduced labour mobility,
- delayed household formation and reduced economic participation,
- lower residential construction activity at the margin,
- higher effective borrowing costs through exclusion rather than pricing.

In practice, it is increasingly common for households to be denied mortgage finance even where the required repayments would be lower than the rent they have reliably paid for years. Such outcomes do not improve financial stability. They increase housing stress and entrench inequality.

4.5 Investor lending restrictions and the incidence of costs

Macroprudential policy has frequently targeted investor lending, particularly in the established housing market, on the assumption that reducing investor activity will improve affordability.

This approach misjudges both incidence and behaviour.

Higher borrowing costs imposed on investors are not absorbed in isolation. In supply-constrained rental markets, these costs are passed through to tenants in the form of higher rents. This transmission is strongest where vacancy rates are low and new supply is slow to emerge.

Investors are also typically the most financially resilient participants in the housing market. They tend to have higher incomes, diversified balance sheets, and access to alternative sources of finance. As a result, they are the last cohort to exit the market when credit conditions tighten.

The immediate effect of investor-focused macroprudential tightening is therefore not to displace investors in favour of first home buyers, but to raise borrowing costs across the system. First home buyers face a double burden: higher rents and greater difficulty accessing mortgage finance.

From a risk perspective, this focus is difficult to justify. Investor loans have historically exhibited lower default rates than owner-occupier loans, reflecting greater financial buffers. No evidence has been presented to demonstrate that investor lending poses a greater systemic risk.

4.6 Systemic risk versus borrower-level outcomes

A central weakness of current macroprudential settings is the conflation of individual borrower risk with systemic financial risk.

Macroprudential policy is not designed, nor should it be designed, to prevent households from making poor financial decisions or to eliminate mortgage delinquency. A well-functioning credit market will always involve some level of default.

Systemic instability requires a double trigger: widespread negative equity combined with rising unemployment. It is the correlation of borrower distress, not its existence, that creates systemic risk. Without both conditions occurring simultaneously, loan defaults may rise, but lenders generally avoid material losses.

From a systemic perspective, default is not the problem. Loss is the problem. Loss requires both borrower distress and insufficient collateral value. In Australia's full-recourse system, with low unemployment and strong capital buffers, borrower-level serviceability rules contribute little to reducing system-wide loss.

The appropriate prudential response to this risk is strong capitalisation and loss-absorbing buffers within the banking system. Capital requirements are specifically designed to protect lenders against correlated shocks. By contrast, increasingly prescriptive borrower-level controls operate at the micro level and contribute little to systemic resilience.

High household debt is often cited as a justification for tighter macroprudential controls. However, high debt is a stock, not a flow, and is meaningful for systemic risk only insofar as it interacts with unemployment and asset prices. Elevated debt levels in a low-default, high-equity system do not, by themselves, justify progressively tighter borrower-level restrictions.

4.7 Equity, Credit Allocation and Unintended Distributional Effects

A further consequence of the cumulative tightening of macroprudential regulation is its impact on equity in access to housing finance. While prudential policy is framed in neutral, risk-based terms, its practical effect is to ration scarce credit in a way that favours households with existing wealth over those with demonstrable repayment capacity.

Macroprudential restrictions allocate scarce credit by wealth, not by repayment capacity. This outcome does not reflect regulatory intent. Rather, it is the inevitable incidence of policy design that relies heavily on rigid balance-sheet metrics, collateral values and standardised serviceability tests.

Households with existing housing equity, diversified assets or multiple income streams are better able to satisfy prudential thresholds or to substitute between credit products. By contrast, first home buyers and renters, who lack collateral despite often having stable incomes, are disproportionately excluded. This has produced the increasingly common outcome in which households are denied access to a mortgage even where repayments would be lower than the rent they have reliably paid for many years.

From an efficiency perspective, this represents a misallocation of credit. Mutually advantageous transactions are prevented, housing turnover is reduced, and labour mobility is constrained, without a commensurate reduction in systemic risk. From an equity perspective, the effect is to reserve access to home ownership increasingly for those who already possess wealth, reinforcing intergenerational and socio-economic divides.

These distributional effects have been compounded by subsequent policy responses. As tighter lending standards have shifted housing demand toward more financially secure borrowers, political concern has grown about investor participation in the housing market. Macroprudential restrictions have then been used to target investor lending, despite investors generally exhibiting lower default rates and greater financial buffers than owner-occupiers.

The incidence of these measures does not fall primarily on investors. Higher borrowing costs are passed through to renters, while first home buyers face a double burden: higher rents and greater difficulty accessing finance. Investors, as the most financially resilient segment of the market, are typically the last to exit. The result is not a reduction in housing demand, but a reallocation of costs toward the most marginal households.

This dynamic highlights a broader policy failure. Successive interventions have attempted to correct the distributional effects of earlier restrictions without addressing the underlying allocation mechanism. In the

absence of explicit oversight of cumulative impacts, macroprudential policy risks entrenching outcomes that are inequitable, inefficient and increasingly misaligned with Australia's housing objectives.

5. Domestic Macroprudential Policy in Practice

5.1 Introduction: understanding where macroprudential decisions are made

Macroprudential policy in Australia does not emerge from a single institution acting in isolation. It is the product of an interconnected regulatory framework, coordinated through the Council of Financial Regulators (CFR), which brings together the country's key financial authorities.

5.2 The Council of Financial Regulators: the apex body

The Council of Financial Regulators sits at the head of Australia's macroprudential governance framework. It is a non-statutory coordinating body established to promote cooperation and information sharing among Australia's financial regulatory agencies.

The CFR is chaired by the Governor of the Reserve Bank of Australia and comprises the heads of:

- the Reserve Bank of Australia (RBA),
- the Australian Prudential Regulation Authority (APRA),
- the Australian Securities and Investments Commission (ASIC), and
- the Australian Treasury.

The Council does not have direct decision-making powers. However, it plays a critical agenda-setting role by identifying risks to financial stability, coordinating regulatory responses, and shaping the shared understanding that underpins macroprudential action. In practice, the CFR provides the forum through which macroprudential concerns are discussed, endorsed, and normalised across the regulatory system.

5.3 Roles of the CFR member agencies

Reserve Bank of Australia

The RBA is responsible for monetary policy and financial system stability. It provides much of the analytical foundation for macroprudential discussions through its Financial Stability Review, which is published semi-annually. The RBA's assessments of household balance sheets, bank resilience, asset prices, and macro-financial risks heavily influence the broader regulatory narrative.

While the RBA does not set prudential rules, its characterisation of risk environments strongly shapes the context in which APRA's supervisory actions are considered appropriate.

Australian Prudential Regulation Authority

APRA is the primary prudential regulator of banks and other authorised deposit-taking institutions. It is responsible for implementing macroprudential tools, including capital requirements, serviceability buffers, and limits on certain types of lending.

APRA's mandate is explicitly focused on financial safety and stability. Housing supply outcomes fall outside its formal remit, even though its actions have direct and predictable effects on housing finance and construction activity.

Australian Securities and Investments Commission

ASIC oversees consumer protection, market integrity, and responsible lending obligations. Its regulatory guidance and enforcement activity shape how lenders assess borrower suitability and risk.

While ASIC's role is often framed in consumer protection terms, its actions also influence credit availability by increasing compliance burdens and narrowing acceptable lending practices.

Australian Treasury

Treasury participates in the CFR to provide whole-of-government policy coordination and advice. It does not regulate lenders directly but plays a key role in shaping the policy environment within which financial regulation operates.

Notably, Treasury also has responsibility for housing policy more broadly, including affordability, supply, and taxation. However, these considerations are not formally integrated into CFR deliberations on macroprudential settings.

5.4 The evidence base: financial stability assessments

The macroprudential posture of Australia's regulators is informed by regular and extensive assessments of financial system risk.

The Reserve Bank of Australia's Financial Stability Review

The RBA's semi-annual Financial Stability Review consistently concludes that Australia's financial system is resilient. Key themes in recent Reviews include:

- banks are well capitalised and profitable,
- household balance sheets are generally strong,
- mortgage arrears and defaults remain low by historical and international standards,
- stress testing indicates banks can withstand severe economic shocks.

Importantly, the RBA repeatedly describes the banking system as "unquestionably strong". This phrase is not incidental. It is used deliberately to convey that the system is robust even under adverse scenarios.

While risks are identified, such as elevated household debt or asset price cycles, these are framed as manageable within existing capital and regulatory buffers.

Council of Financial Regulators quarterly statements

The CFR issues quarterly statements summarising its assessment of financial stability risks and regulatory priorities. Recent statements emphasise:

- continued resilience of the banking system,
- low levels of non-performing loans,
- strong capital and liquidity positions,
- vigilance regarding housing and household leverage.

These statements consistently strike a cautious but confident tone. They acknowledge potential vulnerabilities but reaffirm that the system is sound and well positioned to manage shocks.

5.5 Systemic risk versus housing market outcomes

A striking feature of Australia's macroprudential governance is the persistent disconnect between assessments of systemic risk and the direction of regulatory intervention.

On the one hand, regulators repeatedly conclude that:

- systemic risk is low,
- banks are well capitalised,
- mortgage defaults and arrears are minimal,

On the other hand, the regulatory response has been a steady layering of additional constraints on mortgage lending.

This apparent inconsistency reflects the narrow focus of the governance framework. Risk is defined almost exclusively in terms of financial system stability. Other macroeconomic risks, including housing supply shortages and affordability pressures, are treated as externalities rather than integral components of systemic stability.

5.6 The absence of supply considerations in macroprudential oversight

Despite the central role of housing in Australia's economy, there has been no comprehensive review of how macroprudential restrictions affect the supply of new homes.

Regulatory assessments focus on:

- borrower leverage,
- bank capital adequacy,
- loan performance under stress.

They do not systematically examine:

- impacts on presales and development feasibility,
- delays or cancellations of housing projects,
- long-term effects on dwelling commencements and completions.

As a result, decision-making is structurally biased toward additional restriction. When risks are framed solely in financial terms, the precautionary response is always to tighten further, even when existing indicators show exceptional system strength.

5.7 How governance structure drives regulatory creep

The CFR's consensus-based structure encourages alignment among regulators around risk aversion. There is no formal counterweight within the system charged with testing whether further macroprudential tightening is necessary given prevailing conditions, or whether existing settings are already sufficient.

Without explicit accountability for housing supply outcomes, macroprudential policy naturally evolves in one direction: more buffers, more constraints, more standardisation.

This dynamic explains how regulatory creep can occur even in the absence of a crisis. Each additional measure is justified as prudent, but the cumulative effect is rarely interrogated.

5.8 Implications for housing supply and construction finance

The consequences of this governance framework are particularly acute for new housing supply. Lending for new construction is inherently riskier and more complex than lending against established dwellings. It requires forward-looking assessments of value, cost, and market conditions.

As macroprudential constraints tighten, banks become increasingly conservative in funding new housing projects. The cost of capital rises, presale requirements increase, and marginal projects fail to proceed.

This is not an unintended side effect at the margins. It is a predictable outcome of a system that prioritises financial risk minimisation without regard to supply-side consequences.

5.9 Reframing financial stability to include housing supply

The purpose of financial regulation is to ensure that the financial system serves the Australian economy and community. In a country where housing shortages are now a binding constraint on economic and social outcomes, financial stability should not be considered in isolation from housing supply.

A system that contributes to persistent housing undersupply is not optimally calibrated. Strength must be assessed not only by the absence of crisis, but by the system's capacity to support essential economic activity, including the delivery of new homes.

6. Governance, Oversight and the Institutional Blind Spot

6.1 Introduction: why governance matters

The evolution of Australia's macroprudential framework cannot be understood solely by examining individual regulatory decisions. It must also be understood through the governance structures that shape how risks are identified, prioritised and responded to over time.

The governance gap identified in this report reflects institutional design, not regulatory error. Each agency is acting consistently with its mandate. The problem is that no mandate exists to integrate housing supply considerations into prudential calibration.

This chapter expands on the governance issues raised earlier in the report and explores how Australia's institutional arrangements have contributed to the accumulation of macroprudential restrictions without a commensurate assessment of their impacts on housing supply. The central argument is that the current framework contains an institutional blind spot: financial stability risks are rigorously analysed and monitored, while housing supply consequences are largely external to the decision-making process.

6.2 The dominance of the financial stability lens

Australia's financial regulatory architecture is deliberately designed to prioritise stability. This reflects hard-learned lessons from international financial crises and enjoys broad bipartisan and public support.

Within this architecture, risk is defined primarily as:

- threats to bank solvency and liquidity,
- excessive leverage among borrowers,
- correlated exposures that could amplify shocks,
- the potential for contagion across institutions or markets.

These risks are measurable, modelled, stress-tested and reported on regularly. By contrast, housing supply risks, such as the cancellation of projects, delayed commencements, or missing cohorts of dwellings, are diffuse, long-dated and harder to quantify within standard financial stability frameworks.

The result is a systematic asymmetry: risks that threaten the financial system receive immediate and sustained attention, while risks that threaten housing supply accumulate gradually and often go unexamined.

6.3 Incrementalism and regulatory accumulation

Macroprudential regulation in Australia has evolved incrementally. Each new measure has been introduced as a targeted response to a specific concern, whether investor activity, loan type risk, borrower leverage, or interest rate sensitivity.

This incremental approach has advantages. It allows regulators to respond flexibly to emerging risks and avoids sudden, destabilising shifts in policy. However, it also has a structural weakness: there is no natural point at which the cumulative impact of successive measures is reassessed.

Once a measure is in place, it becomes part of the baseline. Subsequent interventions are layered on top, often justified by reference to new or evolving risks, without revisiting whether existing settings remain appropriate given prevailing conditions.

This dynamic helps explain how macroprudential restrictions can continue to grow even when indicators of systemic risk are low.

6.4 Absence of a countervailing mandate

A defining feature of Australia's governance framework is that no institution is explicitly responsible for assessing how macroprudential policy interacts with housing supply.

- APRA's mandate is financial safety and stability.
- The RBA's financial stability role focuses on macro-financial risk.
- ASIC's focus is consumer protection and market integrity.
- Treasury participates in coordination but does not have a formal mechanism to integrate housing supply considerations into prudential settings.

While housing policy sits within Treasury's broader remit, it is institutionally separated from prudential decision-making. As a result, there is no formal counterweight within the system charged with asking whether further tightening is necessary given supply conditions, or whether existing settings are already sufficient.

6.5 Evidence of strength without recalibration

In many policy domains, such evidence would trigger a reassessment of whether emergency or precautionary measures remain warranted. In macroprudential policy, however, strength is often interpreted as validation of existing settings rather than as a reason to recalibrate them.

This creates a ratchet effect. Restrictions are introduced in response to perceived risks but rarely unwound unless those risks are shown to have escalated into observable stress. The absence of stress is treated as confirmation that restrictions should remain in place.

6.6 How governance bias affects housing supply

The governance bias toward risk minimisation has direct implications for housing supply.

Because housing supply effects are not explicitly considered, macroprudential decisions tend to err on the side of restriction even when the marginal benefit to stability is small. However, the marginal cost to housing supply can be large, particularly in markets where development feasibility is finely balanced.

Projects are cancelled not because they are unsafe, but because presales fall short. Builders delay commencements not because demand disappears, but because finance conditions tighten at the margin. These outcomes rarely appear in financial stability dashboards, but they shape housing outcomes for decades.

6.7 The role of the Council of Financial Regulators

The Council of Financial Regulators plays a central role in coordinating macroprudential policy. However, its consensus-based structure reinforces the dominance of the financial stability lens.

The CFR excels at identifying and responding to shared perceptions of risk. What it lacks is an external mechanism for challenging whether those perceptions warrant additional restrictions given existing settings and broader economic objectives.

In the absence of explicit responsibility for housing supply outcomes, the Council's deliberations naturally converge on precaution. This is not a failure of individual regulators, but a predictable outcome of institutional design.

6.8 Why oversight has been inadequate

Inadequate oversight does not imply negligence or error. It reflects the fact that Australia's macroprudential framework was not designed to manage a housing market characterised by chronic supply shortages.

The framework evolved in response to a global financial crisis that did not originate domestically, and it has since been reinforced by repeated success in maintaining stability. What it has not done is adapt to a new macroeconomic reality in which housing supply constraints are a binding national problem.

Without explicit oversight of cumulative effects, macroprudential policy risks drifting further toward restriction even as its marginal benefits decline and its long-run costs increase.

6.9 Implications for reform

Addressing this governance gap does not require weakening prudential standards or compromising financial stability. It requires expanding the scope of oversight so that macroprudential decisions are informed by housing supply conditions as well as financial risk metrics.

This reinforces the case, developed elsewhere in this report, for:

- independent review of macroprudential accumulation,
- greater transparency around decision-making criteria,
- explicit consideration of housing supply impacts within the Council of Financial Regulators.

Without such reforms, Australia risks entrenching a policy framework that is exceptionally good at preventing financial crises but poorly equipped to respond to a prolonged housing shortage.

7. Conclusion and Call to Action

Australia's macroprudential framework has evolved substantially over the past two decades. While it has strengthened financial stability, it has also contributed to a cumulative tightening of housing finance conditions and higher borrowing costs especially for perceived higher risk borrowers such as first home buyers. In a housing market characterised by structural supply constraints and long development lead times, this has reduced supply responsiveness and increased the risk of persistent shortages.

There has been inadequate oversight of the growth and accumulation of macroprudential restrictions affecting residential lending. To address this, this report calls for:

- An independent review, led by an eminent person, to assess the effectiveness and unintended consequences of macroprudential restrictions on residential home building and housing supply, including a review of pre-2019 measures such as investor lending benchmarks and interest-only caps and the Basel reforms.
- Amendments to the role of the Council of Financial Regulators to explicitly consider the impact of prudential and regulatory decisions on housing supply.

Such a review would strengthen policy coordination, improve transparency and ensure Australia's macroprudential framework remains fit for purpose in an economy where housing supply has become a binding structural constraint.

Success would not be defined by higher house prices or looser lending standards. It would be defined by a macroprudential framework that is periodically reviewed proportionate to prevailing risk, supportive of competition, and transparent about trade-offs, while maintaining Australia's unquestionably strong banking system.

Australia's macroprudential framework has succeeded in delivering financial stability. The challenge now is ensuring it remains appropriately calibrated for an economy facing chronic housing supply constraints.

Appendix: Media led regulatory initiatives

Timeline: oversupply narrative and regulatory actions overlapping (2016 to 2018)

2016

14 Apr 2016, RBA Financial Stability Review flags concentrated apartment supply as a risk

RBA noted an “ongoing risk” from the geographically concentrated pipeline of new apartments due for completion over the next few years in Sydney, Melbourne and Brisbane, and that this supply could weigh on prices and rents. [Reserve Bank of Australia](#)

Apr 2016, media reporting on apartment oversupply, especially Melbourne

Mainstream reporting was already using “oversupply” language, particularly on the rental side in Melbourne. [News.com.au](#)

5 Aug 2016, settlement risk narrative strengthens (RBA warning covered by AFR)

AFR reported RBA warnings that off-the-plan purchases in Brisbane and Melbourne could fail to settle, explicitly linking supply pipeline dynamics to settlement risk. [AFR](#)

26 Aug 2016, ABC reports Citi warning of “apartment glut” and settlement risk hotspots

Citi is quoted warning that oversupply could trigger price falls and increase settlement risk, a very close match to the mechanism you describe (pipeline, valuation risk at settlement). [ABC](#)

14 Oct 2016, Guardian reports RBA concern about risk of oversupply in inner cities

This coverage shows “oversupply risk” language was prominent in late 2016, including inner-city Brisbane, Sydney and Melbourne. [The Guardian](#)

30 Nov 2016, Bloomberg highlights Melbourne apartment price falls and “looming oversupply” concern

This is another example of the oversupply theme entering global financial coverage. [Bloomberg](#)

2017

18 Jan 2017, public debate becomes contested, “oversupply myth” versus “oversupply risk”

Realestate.com.au is an example of the pushback narrative, showing oversupply was a live, high-salience topic, not a fringe idea. [Real Estate Australia](#)

9 Feb 2017, oversupply claims broaden, survey based commentary

Finder’s expert panel coverage is another indicator of the public narrative, even if it is not “official” evidence. [Real Estate Australia](#)

3 Apr 2017, RBA Financial Stability Review explicitly mentions “oversupply of apartments” in pockets

RBA stated there continued to be concerns about oversupply in parts of Melbourne and Brisbane, linking this to price declines in some segments, soft rental growth, and rising vacancy. [Reserve Bank of Australia](#)

31 Mar 2017, APRA announces further measures, introduces the IO benchmark and includes the “absorb new construction” line

This is the Byres statement you quoted, where APRA frames the investor benchmark as balancing moderation of investor credit growth with the need to absorb newly completed construction in the year ahead. [APRA](#)

2 Jul 2017, ABC runs “housing surplus” framing and crash risk discussion

This is a good example of the “oversupply/ surplus” language spilling into mainstream macro commentary in 2017. [ABC](#)

21 Nov 2017, APRA speech: “Housing: The importance of solid foundations”

Byres explains APRA’s actions in “risk and standards” terms and points to the immediate effect on interest-only lending share, helpful for showing APRA’s stated rationale. [APRA](#)

2018

26 Apr 2018, APRA announces plans to remove the investor lending benchmark (ADI by ADI)

APRA positions this as a shift from a blunt benchmark to more “embedded” standards and board accountability, which is useful for contrasting “temporary tool” versus “permanent standards.” [APRA](#)

30 May 2018, Byres opening statement references removal of the investor benchmark

This reinforces the narrative that APRA viewed the benchmark as transitional, contingent on improved standards. [APRA](#)

19 Dec 2018, APRA announces removal of the interest-only benchmark (effective 1 Jan 2019)

APRA says the benchmark can be removed because the share of new IO lending had fallen and expects banks to keep prudent internal limits. [APRA](#)

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