



Housing Markets, Financial Stability and Macro-prudential Policies

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NUS-IRES Symposium on Information, Institution and
Governance in Real Estate Markets, 20 May 2011, Singapore

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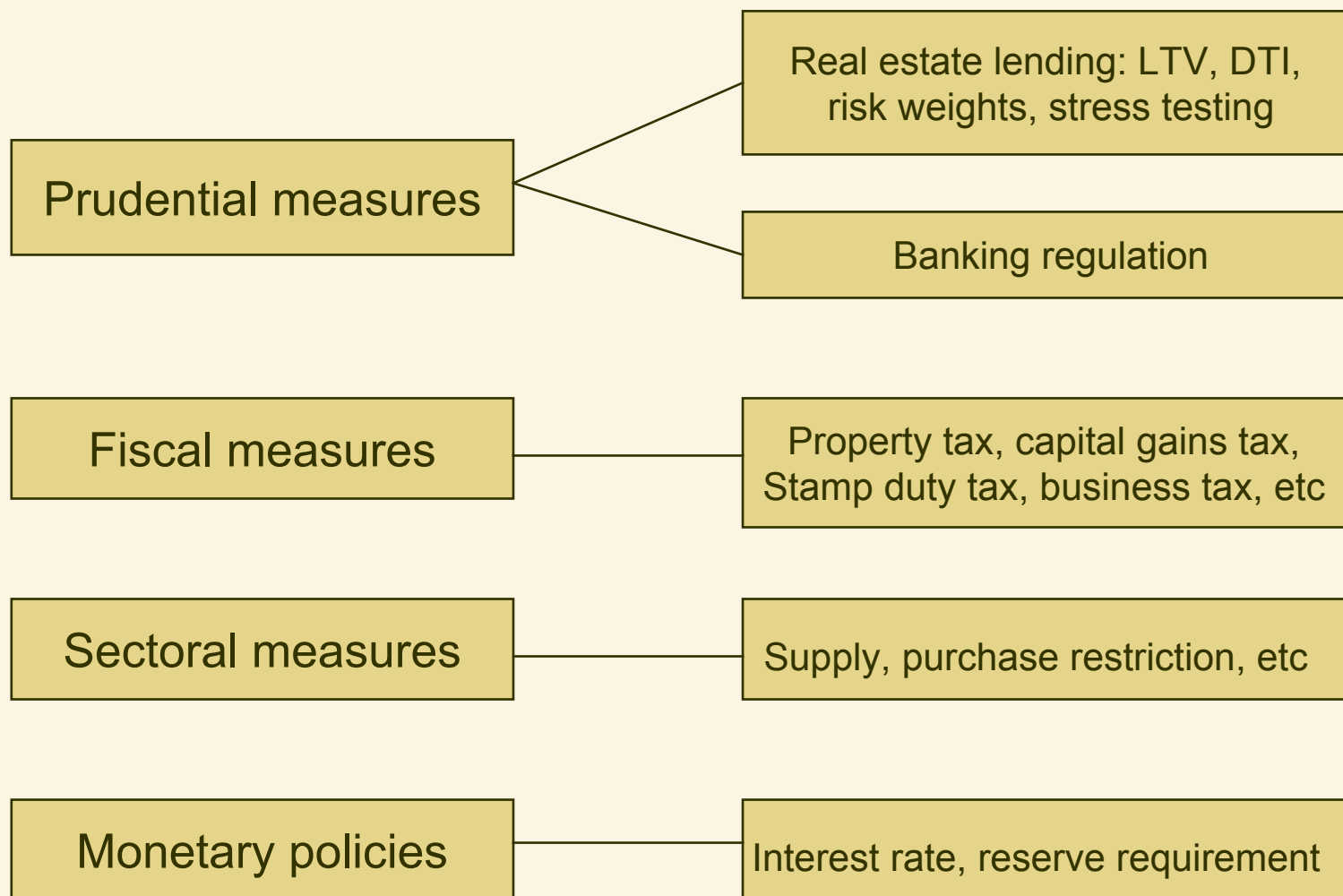
Background

- How to deal with asset price bubbles
 - A hands-free approach prior to the GFC
 - The attitude changed dramatically after the crisis
- Real estate cycles and the real economy
 - Investment channel
 - Wealth effect
 - Property cycle and bank performance
 - Asset prices in the financial market: e.g. MBS, CDO



Stabilization policies in housing markets

- Objectives
 - Social objective: housing affordability
 - Target at house prices or house price growth
 - Financial stability objective: mitigate the impact of real estate cycles on bank performance
 - Lean against the cycle
 - Resilience of the banking system



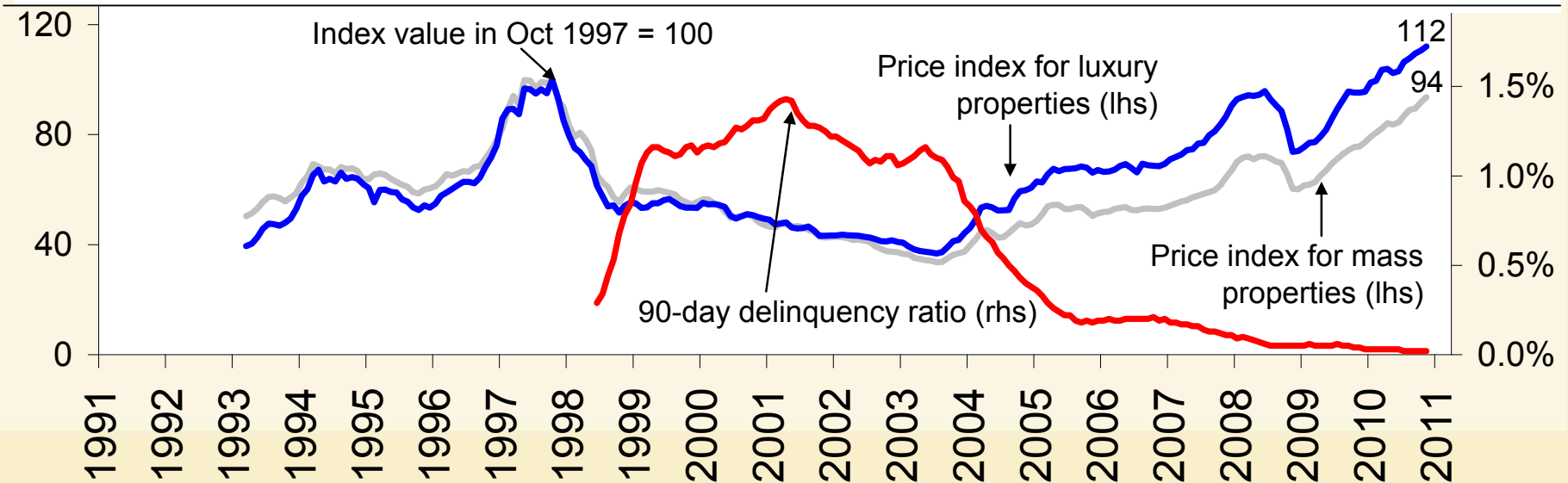
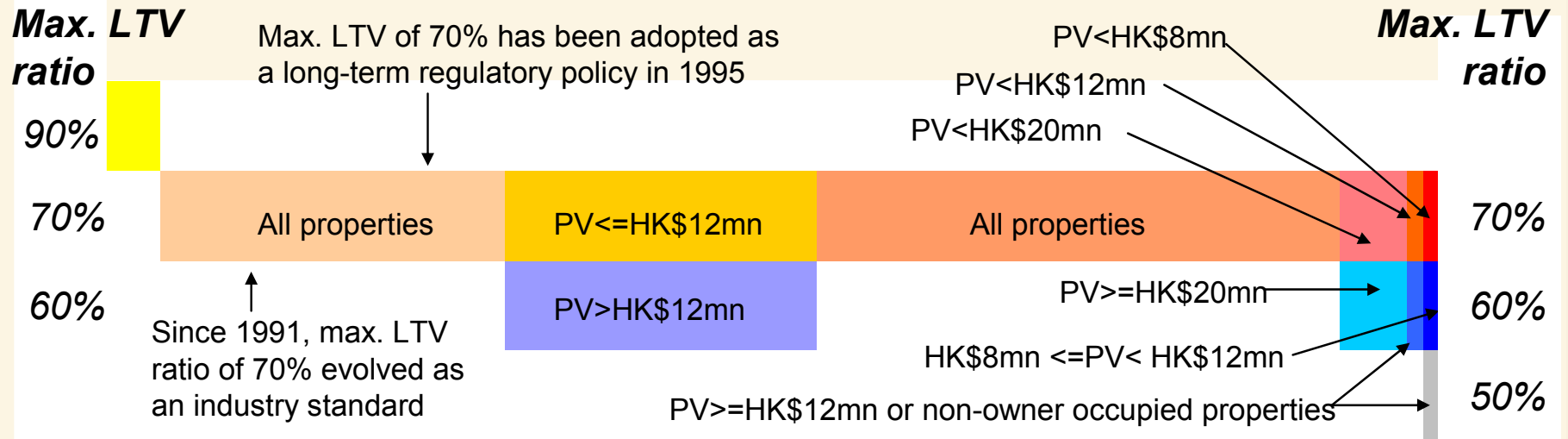


Prudential instruments: a trend towards “macro-prudential”

- Most popular: LTV requirements
 - Example 1: Hong Kong
 - not effective in containing the bubble
 - but contributed to bank resilience in the bust period: low delinquency rate (1.43%) when house prices dropped by more than 40% between Sept 1997 and Sept 1998



History of LTV policy in Hong Kong (Wong 2011)



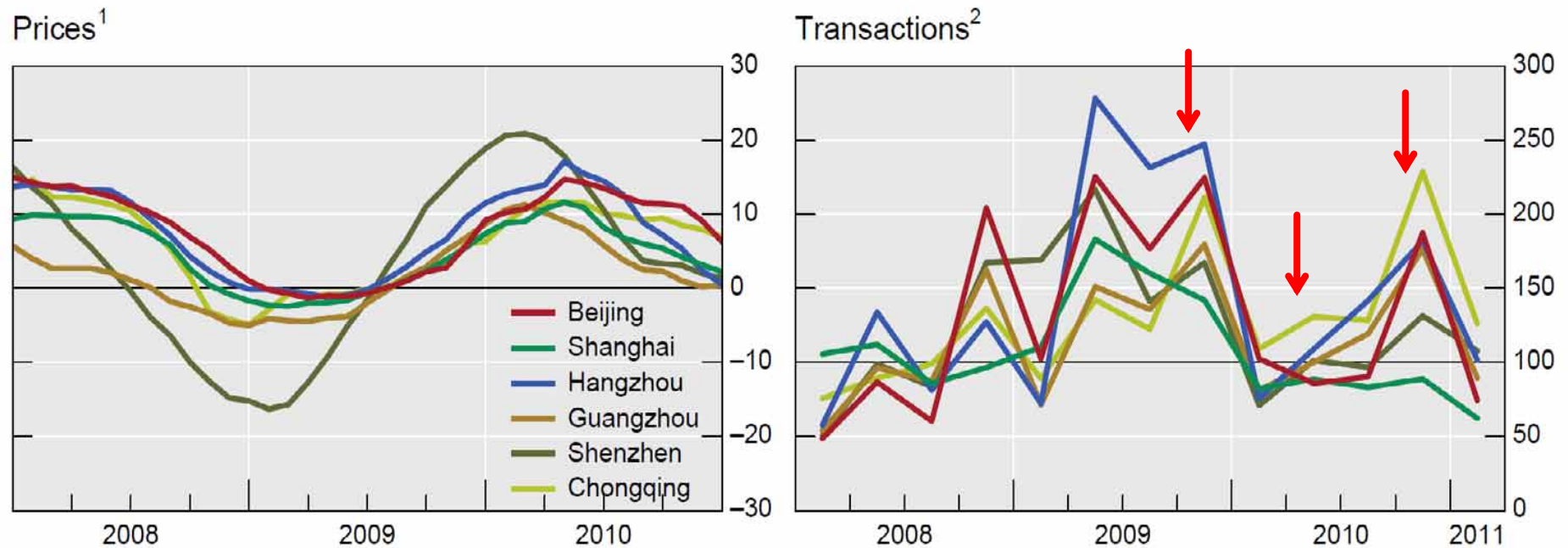


- Example 2: China in 2010
 - Differentiated, dynamic adjustment
 - Current LTV caps in China (80% in 2009)
 - 70% for first home-buyer
 - 40% for second home-buyer
 - No mortgage lending for third home-buyer



Effectiveness still to be observed

Housing market activity in selected Chinese cities



¹ Year-on-year change; monthly frequency. ² Floor space sold in residential units; quarterly frequency; 2008 = 100.

Sources: National Bureau of Statistics; BIS calculations.



- General observations
 - Mainly on demand side
 - Mainly discretionary rather than rule-based
 - Lean-against-the-wind becomes more popular



- Banking regulation: e.g. Basel III
 - Capital requirements: countercyclical capital buffers, capital surcharges on systemically important banks
 - Liquidity requirements
 - Countercyclical provisioning (Spain)
 - Limits on concentration risk (e.g. 40% limit of mortgage loans/total loans in HK)



Fiscal measures

- Increase transaction costs or holding costs
 - Capital gain tax (KR: as high as 60%)
 - Business tax (CN)
 - Real estate tax (CN)
 - Stamp duty tax (HK)
 - **Special stamp duty tax**
 - HK (Nov 2010): up to 15%
 - SG (Jan 2011): up to 16%



Other sectoral policies

- Land policies and supply measures
 - China: 36 million public housing units in 2011-15
- Administrative measures
 - China: restrictions on home buyers' qualification (by residence and the number of property already owned)



Open questions

- Transmission mechanisms
- Calibration on the effectiveness of various instruments
- The interactions of various policies, especially the role of monetary policy



BIS Research Initiative on Property Markets and Financial Stability

- How to monitor and assess valuations in property markets
- Housing finance arrangements and their market impact
- The relationship between property markets and the health of the banking sector
- The impact of various policy instruments to control property prices and related lending



A Final Advertisement

- BIS-MAS research workshop on “Property Markets and Financial Stability”, 5 September 2011, Singapore
- Deadline for submission: 1 June 2011
- <http://www.bis.org/arp/events/masbissept2011.pdf>