Welcome remarks

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Overview and background

Professor Timothy Riddiough, colleagues from the BIS, IMF, central banks, regulatory agencies and academia, ladies and gentlemen. Good morning.

Welcome to this workshop. We received more than 60 papers from many countries, with submissions from central banks, public agencies, supranational organisations, and academic institutions. I would like to thank everyone for their support. The very good response reflects the strong interest in this growing and important area of research.

Property market volatility poses financial stability challenges

The theme of this workshop is property markets and financial stability. Maintaining stability in property markets has been challenging for authorities across Asia in the last few years. Between 2005 and 2008, property prices in Asian economies rose rapidly. This reversed during the Global Financial Crisis, as the downturn affected incomes, confidence and the availability of financing. However, as the Asian economies rebounded, so did property prices, reaching record levels in a number of countries.

Property markets are prone to cycles, in part because supply is inelastic in the short term. This cyclical behaviour is exacerbated by several factors.

First, property is both a consumption good and an investment good. While rising prices would normally mean lower consumption, expectations of further price increases could induce more investment demand. Price momentum may escalate as valuations are usually set with reference to the latest transacted prices.

Second, housing markets tend to be highly leveraged. Most homebuyers borrow to finance their purchases, sometimes up to 80% or 90% of the value of the property. And because mortgage loans are collateralised and have historically low default rates, banks are prepared to lend at high loan-to-value ratios. In a rising market, banks are willing to lend more as the value of the collateral increases. Easier credit may contribute to further increases in house prices. But this feedback loop quickly reverses when prices are falling. Lenders tighten underwriting standards. Existing housing loans with small equity buffers may slip into negative equity and some borrowers may be forced to sell. This puts further downward pressure on prices.

Third, housing generally accounts for a significant proportion of households' balance sheets and banks' loan portfolios. In Singapore, property forms almost 50% of household assets while housing loans account for three quarters of total household debt. They also make up about 17% of bank lending to non-bank borrowers. As a result, adverse developments in housing markets can have a material impact on household wealth and the health of the banking system. This could then dampen household demand and banks' ability to supply credit, and in turn economic growth. Further, construction accounts for as much as 10% of

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output in some Asian economies and could pose a significant drag on growth should activity in the sector falter. Indeed, the United States, Ireland and Spain are recent examples of how property sector imbalances could cause issues as households and banks delever.

The challenge of maintaining stability

Therefore, stable property markets matter to households, to the financial system and to the economy. Asia's policy responses to property market developments over the last few years reflect this awareness. Besides encouraging individuals to borrow and banks to lend prudently, policy measures sought to mitigate the build-up of system-wide leverage. These so-called macroprudential tools are not new, as some Asian authorities have been using them since the 1990s. But there has been greater interest in such measures following the crisis.

In Singapore, the government disallowed certain loan schemes that may have encouraged property speculation, introduced a seller stamp duty, lowered LTV ratios and raised the minimum cash payment required for property purchases. Public housing construction has gathered pace and more land has been made available for private housing development. The measures have to some extent moderated the market, with the rate of increase in private property prices slowing in each of the last seven quarters. Transaction activity has fallen as well.

Our approach has been, from a whole-of-government perspective, targeted and incremental. Measures were focused on discouraging short-term speculative activity that could distort underlying prices, whilst encouraging greater financial prudence among property purchasers. Policies were fine-tuned over time to take into account implementation experience and market impact.

Research agenda

Policymakers need to deepen their understanding of the range of macroprudential tools and their efficacy. Unlike in monetary policy, where there are more established models of policy targets, transmission mechanisms and policy reaction functions, research on macroprudential tools is still at an early stage.

More research needs to be done on property markets and their interactions with the financial system and the real economy. The use of macroprudential tools in Asia and elsewhere to deal with property market pressures offers an opportunity to evaluate the effectiveness of these tools and consider how they can be refined. Policy design and implementation will benefit from a better understanding of market behaviour and interlinkages. Research findings can also feed into ongoing efforts by the IMF, the BIS and the FSB to develop guidance on issues such as the institutional set-up for macroprudential policy, tools for risk monitoring and assessment, and the design, timing and communication of policy measures. Workshops like this provide a useful forum in which to make progress on establishing a robust framework for macroprudential policies.

Conclusion

Before I end, I would like to thank the BIS for its partnership in organising this conference. On behalf of the organisers, I would like to express our appreciation to Professor Timothy Riddiough, our keynote speaker, and to Kenneth Kuttner, Frank and Veronica Warnock, Deng Yongheng, Phang Sock Yong and Chris Thompson for kindly agreeing to be chairpersons, discussants and members of the scientific panel.

I wish you all an engaging and fruitful conference.