Discussant remarks on Deniz Igan's paper "Dealing with real estate booms and busts"

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This paper addresses a timely and important question: how should policymakers deal with real estate booms? Its most important contribution is the assembling and presentation of a range of information on policy tools that have been used in various countries. Most readers will want to go straight to this information, which is presented in Table 3 (which summarises by country some background information, the actions taken, and the outcomes) and Appendix Table 1 (which provides some detail on policy frameworks, including monetary policy, tax systems, and regulatory structure by country) of the original paper.[2]

The paper sets out to address two principal questions: What kind of indicators should trigger policy intervention to stop or slow down a real estate boom? What policy tools are at the disposal of policymakers, and for each tool, what is its impact, what are its negative side effects and limitations, and what are the practical issues that might limit its use?

On the first question, the authors are mostly silent. They state that "better yardstick indicators (such as price-income and price-rent ratios, measures of credit growth and leverage) can be developed to guide the assessment of the risks". But what are these better yardstick indicators? The paper has nothing additional on this important point. Do we know when rapid house price increases are problematic (a bubble) and when they are benign (perhaps in line with fundamentals)? To adequately answer the first question the authors pose in the introduction, much more is needed to help distinguish between "bad" booms and more benign (even beneficial) ones.

On the tools, the paper describes three, namely monetary policy, fiscal policy, and macroprudential regulation. Two objectives are to prevent real estate booms and the associated leverage build-up and to increase the resilience of the financial system to real estate busts. In their assessment of the policies, the authors also discuss how these were able to control sharp increases in house prices, curb speculative demand, or reduce default risk, whether the measure directly targets a narrow aspect of the real estate cycle or the economy more broadly, and the potential costs.

In the policy tools section of the paper, country cases are discussed rather cursorily. It would have been valuable if the authors had delved deeper into country cases for Australia and Sweden (on monetary policy), Spain (on dynamic provisioning), and Hong Kong (on loan-to-value and debt-to-income limits). In order to carry out the objective of the paper, these discussions could be on the salient points of the whys and hows of the policy actions. More information on country cases (for many countries) is in the two tables mentioned above. A bit more depth for a few countries would be helpful.

In the conclusion, the authors rather forcefully state that, from their analysis, some "core principles in guiding policymakers to design an effective policy toolkit to deal with real estate booms emerge". Four core principles are listed. It is not clear, however, that there is a link from the analysis in the paper to these policy recommendations. It seems that most of the

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[2] Christopher Crowe, Giovanni Dell'Ariccia, Deniz Igan and Pau Rabanal, "How to deal with real estate booms: lessons from country experiences," IMF Working Paper No. 11/91.

recommendations emerge from a highly stylised DSGE model tacked onto the end of the paper. It is less clear that any of the recommendations follow from the careful (and useful) information assembled in Table 3 and Appendix Table 1. This is a bit of a lapse. The paper's subtitle is "Lessons from country experiences", but then the lessons seem to come from a theoretical model and not from the country cases. It would be useful if the lessons drawn in the conclusion came from the information on the country experiences brought together in this paper.

To summarise, two lapses detract from this paper. First, it states that it will address an important question (What indicators should trigger policy intervention?), but never does. Second, it states conclusions ("core principles in guiding policymakers") that do not follow from the country experiences it presents. Both of these points are easily addressed. If the authors do not assess the types of indicators that should trigger policy responses, they should just remove that from the introduction and move it to the conclusion as an important area for future work. Moreover, the lessons drawn from the analysis and highlighted in bullet points in the conclusion should be lessons from country experiences, as implied by the title, not conclusions that emerge from a stylised theoretical model (a model that should probably be removed from the paper).

With these two adjustments, the reader can focus on the paper's strength – the assembling and presentation of a range of information on policy tools that have been used in various countries. The literature will benefit significantly from the paper's compilation of policy actions as well as each country's monetary policy, tax systems and regulatory structure.