Opening remarks by Muhammad Ibrahim, IFC Chairman and Deputy Governor, Central Bank of Malaysia

Good morning ladies and gentlemen,

Welcome to the IFC Satellite Seminar on “Is the household sector in Asia overleveraged: what do the data say?”. Bank Negara Malaysia is honoured to jointly organise this event with the Irving Fisher Committee on Central Bank Statistics (IFC).

On behalf of the IFC, I would like to thank Bank Negara Malaysia for organising and hosting this event. There are about 80 participants with us today, and I would like to extend my appreciation to all of those – IFC Executives and members, distinguished guests, speakers and participants – who are contributing to this IFC Seminar and taking part.

As you know, the Seminar is held in conjunction with the 2014 International Statistical Institute (ISI) Regional Statistics Conference, which will be held on 16–19 November at Sasana Kijang. This first regional conference of the ISI is organised with its South East Asia Network and in collaboration with Bank Negara Malaysia, the Department of Statistics, Malaysia, and the Malaysia Institute of Statistics. We have a very stimulating programme lined up for the coming days, which I am positive will prompt very rich discussions and exchanges of views. I would therefore like to warmly thank all those who will be contributing to and taking part in the ISI regional conference.

I would like to make a special mention of Vijay Nair, the President of the ISI, who has kindly agreed to attend today’s IFC Seminar. Vijay, Malaysia is very proud to organise the first regional conference of the ISI, and to welcome all the statistical experts of the world in Kuala Lumpur. Your presence with us today underlines the importance of the relationship between the ISI and the IFC, and with the central bank community more generally. Indeed, last year the IFC became an affiliated member of the ISI. A Memorandum of Understanding between the ISI and the IFC was signed during the ISI World Statistics Congress in Hong Kong SAR, in August 2013. Since then, around 20 central banks have also become formal members of the ISI, reinforcing the cooperation between the central banking community and the international statistical community.

Many thanks, dear Vijay, for the ISI’s strong cooperation with the IFC, and in particular, for attending today’s Satellite Seminar and contributing actively to our discussions. We are very appreciative that you will share with us later today some views on ISI/IFC cooperation as well as on the topic of big data. Big data is indeed a very important aspect when considering statistics on the household sector, because much information can be derived from granular or micro data sources.
The topic of today’s meeting, “household debt”, is very timely. As some of the presenters will explain, the Asian Financial Crisis at the end of the 1990s was partly a consequence of weaknesses in the domestic financial sector, notably an inability by domestic borrowers to service their debts. Since then, the economic importance of the household sector has also developed markedly in Asia. The financial and non-financial assets held by households have risen significantly, and so have their liabilities. Let me illustrate my point with a few numbers for Japan. The wealth of Japanese households represents around 900% of their annual disposable income. Some 60% of this wealth comprises financial assets and the rest is non-financial assets. At the same time, household liabilities represent around 120% of their disposable income. These are very large numbers. Private wealth and debt are certainly lower elsewhere in Asia, but recent years have seen a sharp expansion in household assets and liabilities in many countries, for instance, in Korea, Malaysia and Thailand.

Arguably, the rise in household debt could also indicate growing strength in Asian domestic demand and, thereby, increasing resilience to potential external economic shocks. But debt is a two-edged sword. Research has shown that, at moderate levels, debt is a source of economic growth and stability but, when excessive, debt increases volatility and becomes detrimental to growth. Hence, the accumulation of debt involves risk. Indeed, as leverage increases, borrowers’ ability to repay becomes progressively more sensitive to variation in their sources of income as well as to interest rate changes. So, while financial deepening can help improve economic well-being, high and rising debt is also a justifiable source of concern. And, in particular, the growing importance of household debt is posing new challenges.

This seminar has therefore been structured along five main questions that reflect the key challenges faced by Asian policymakers when looking at the household sector. We are very happy to have today so many distinguished speakers who can share with us their knowledge and experience in managing these challenges.

The first challenge is the data itself. Good policies require good statistics, and Session 1 will help us to assess the quality of data on household balance sheets in Asia. Improving on this front requires further development of the financial sector accounts, in line with the recommendations of the Data Gap Initiatives endorsed by the G20. It is reassuring that many projects are being initiated in the region to develop these accounts and also to mobilise other data sources on households’ overall financial positions, as Sayako Konno and Masahiro Higo from the Bank of Japan will tell us.

The second challenge is the particular role played by housing, which often represents the bulk of household assets. Sometimes, the only significant asset held by a household is its house. But, as houses are expensive, housing also incurs important liabilities (mortgages). This puts a premium on reliable data for house prices and housing wealth as a basis for the evaluation of the household sector’s financial position. But, as Jens Merhoff from the Bundesbank will tell us during Session 2, the measurement of residential property prices remains challenging. Moreover, the choice of adequate indicators may depend on the analysis conducted and on the policy questions being asked. Indeed, a recent BIS study showed that, in Germany, the rise in nominal house prices between 2008 and 2014 was between 10% and 40%, depending on the data source used! I am also very happy that
Raymond Yuen from the Hong Kong Monetary Authority will be able to present Hong Kong’s experience in this respect, especially on how to properly measure house prices, and in particular, how to adjust for quality effects.

A third challenge is how to move beyond the simple measurement of assets and liabilities to get a sense of the financial soundness of households’ positions. Various indicators can be used to assess the risk of financial distress and vulnerabilities to sudden movements in asset prices, especially house prices. In its 2014 Annual Report, the BIS looked at the various indicators that can be used to assess the risk of financial distress. A main finding was that the evolution of credit-to-GDP ratios, property prices and households’ repayment capacities (eg the debt service ratios) can be very useful for debt sustainability analysis. I am pleased that Jooyung Lee from the Bank of Korea will focus in Session 3 on the household debt service ratio as a key indicator for debt sustainability analysis.

A fourth challenge is that aggregate data are not enough. The G20 Data Gaps Initiative has highlighted the importance of knowing more about the distribution of households’ balance sheet positions. Total household debt may be low in aggregate in a country, but this can be misleading. For instance, financial stability risks may still be high if debt is concentrated on a very specific group of households, eg new homeowners who rely extensively on bank financing. But capturing distributional information requires a better understanding of the links between the “macro” national accounts-based world, and the “micro” world based on granular information, especially on income, wealth and debt. Gianni La Cava from the Reserve Bank of Australia will share with us in Session 4 Australia’s experience in this area. He will help us understand how to develop databases linking micro and macro data. He will also show how granular information can be useful to better understand macroeconomic developments such as the evolution of household savings and inequalities.

And then there is a fifth challenge, which is perhaps the greatest. Once we have all the statistical information on household financial positions and possible vulnerabilities – and this is already a big challenge – how should we translate it into policy recommendations, especially to mitigate financial stability risks? For instance, the design and implementation of macroprudential policies (eg loan-to-value ratios, debt servicing limits) require close monitoring of available data. This is often further complicated by policies that are targeted at specific segments of the household sector or housing market. And of course, assessing the effectiveness of such policies over time is critical in ensuring their timely calibration and, at some point, their removal. It will also help to mitigate possible unintended consequences, especially as regards agent behaviour in response to these policies and the overall impact on the economy. Asia is, perhaps, the best place to look when considering this last challenge. The region has gained a lot of experience in recent years with regard to the design and the use of the macroprudential tools that have become a buzzword in today’s policy agendas. Lau Chin Ching, from Bank Negara Malaysia, will present in Session 5 how household data can be mobilised effectively to assess systemic risk and to guide policy actions.

The theme for today’s Satellite Seminar has proved to be a very timely topic for all of us in the central banking community. As you know, the IFC is an important forum in providing a global platform for the exchange of views amongst central bank economists, statisticians and policymakers on statistical issues that are of interest to central banks. The IFC is therefore rightly looking into the issue of
household leverage so as to make appropriate recommendations and messages for central bank Governors, not only in Asia but also in other regions. And I am very pleased to note that the ISI is with us in this endeavour.

With this, ladies and gentlemen, I conclude my opening remarks. I wish all of you a productive and engaging seminar. Thank you.