



IFC Satellite meeting at the ISI Regional Statistics Conference on *"Is the household sector in Asia overleveraged: what do the data say?"*

Kuala Lumpur, Malaysia, 15 November 2014

Assessing household balance sheet and risks – three challenges¹

Jacques Fournier, Bank of France

¹ Discussion of the presentation *"Using household balance sheet and housing data for systemic risk assessment and policy formulation – Malaysia's experience"* by Chin Ching Lau, Central Bank of Malaysia. The views expressed are those of the author and do not necessarily reflect the views of the BIS or the central banks and other institutions represented at the meeting.

USING HOUSEHOLD BALANCE SHEET AND HOUSING DATA FOR SYSTEMIC RISK ASSESSMENT AND POLICY FORMULATION

**Discussion by Jacques Fournier
Banque de France**

Kuala Lumpur, 15 November 2014

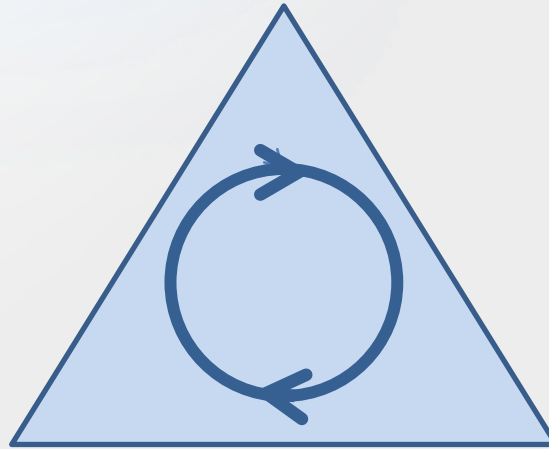
“Man often knows what he does, but never knows what will do what he does”
(Paul Valéry)

“We have to recognize that there is no road that guides us from what exists to what should exist”
(Albert Einstein)

Experience demonstrates that property booms are often the source of vulnerabilities that lead to systemic crisis

- To mitigate this risk, three conditions have to be met:

1. Reliable and comparable data



2. Macro economic analysis

3. Adapted policy measures

- + a close interaction between these three aspects is warranted, not only for presentations but also in “real Central Bank life”.

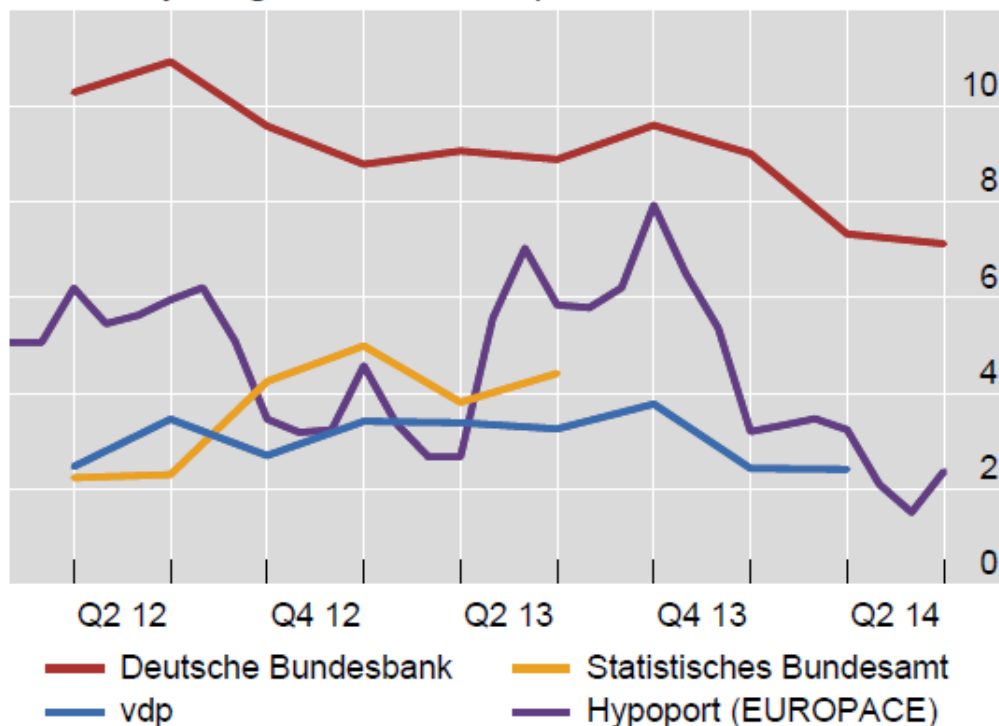
1. First challenge : reliable and timely data

- In 2009, the G20 asked the BIS and the member central banks to collect and publish residential property prices.
- The coverage is 55 countries today.
- Quality-adjusted prices indices that cover the whole sector (all types of dwelling and all locations in a given country) are available for about two thirds of the 55 countries.
- This database is a huge progress and a key tool for statisticians and economists.
- The process is beginning only: more countries could join, in particular the hedonic approach
- Some questions marks: comparing absolute prices and not only evolutions?

Residential property prices indices may convey contrasted messages An example : Germany

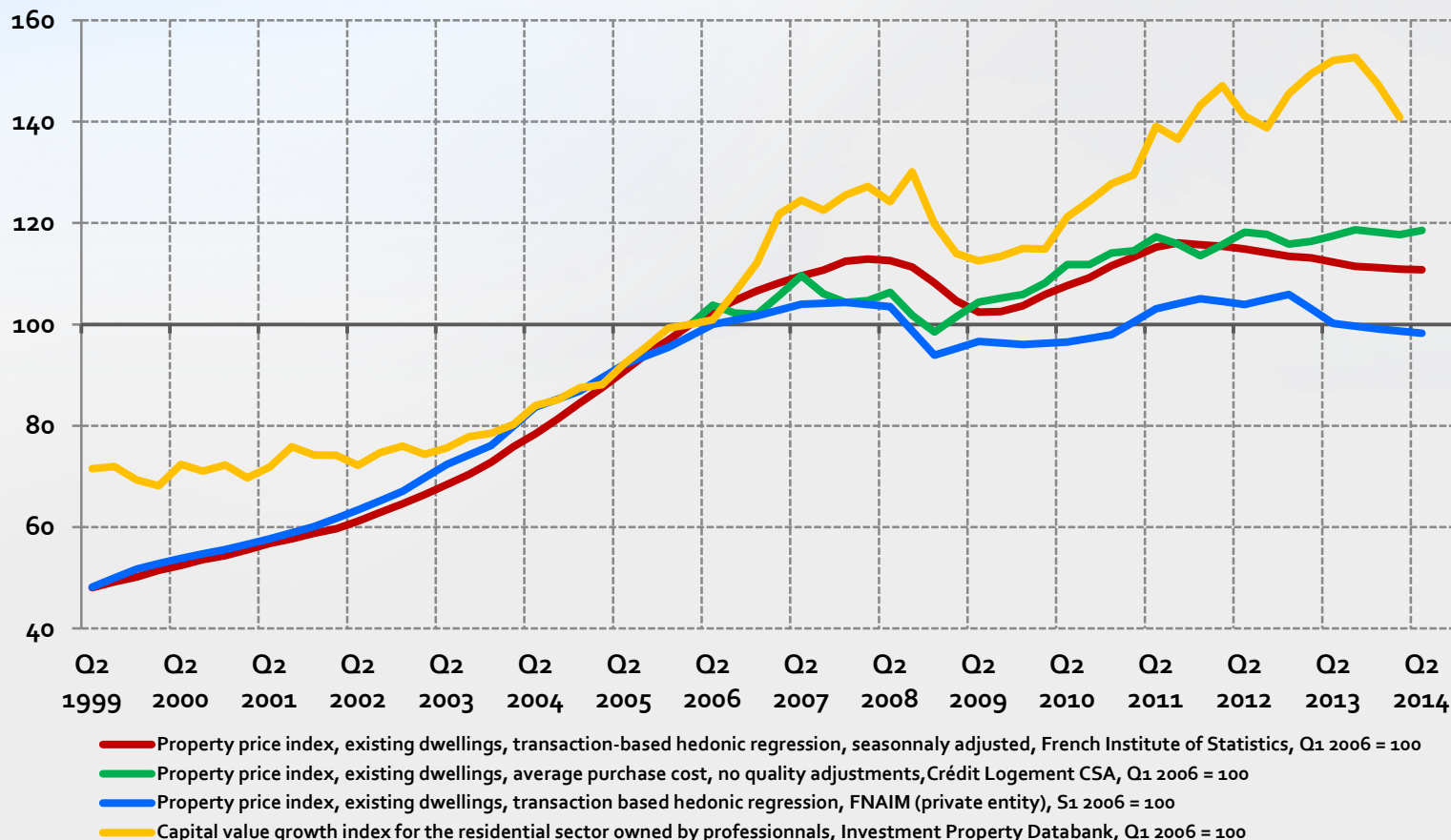
Nominal house price indices in Germany

Year-on-year growth rates, in per cent



Source: BIS

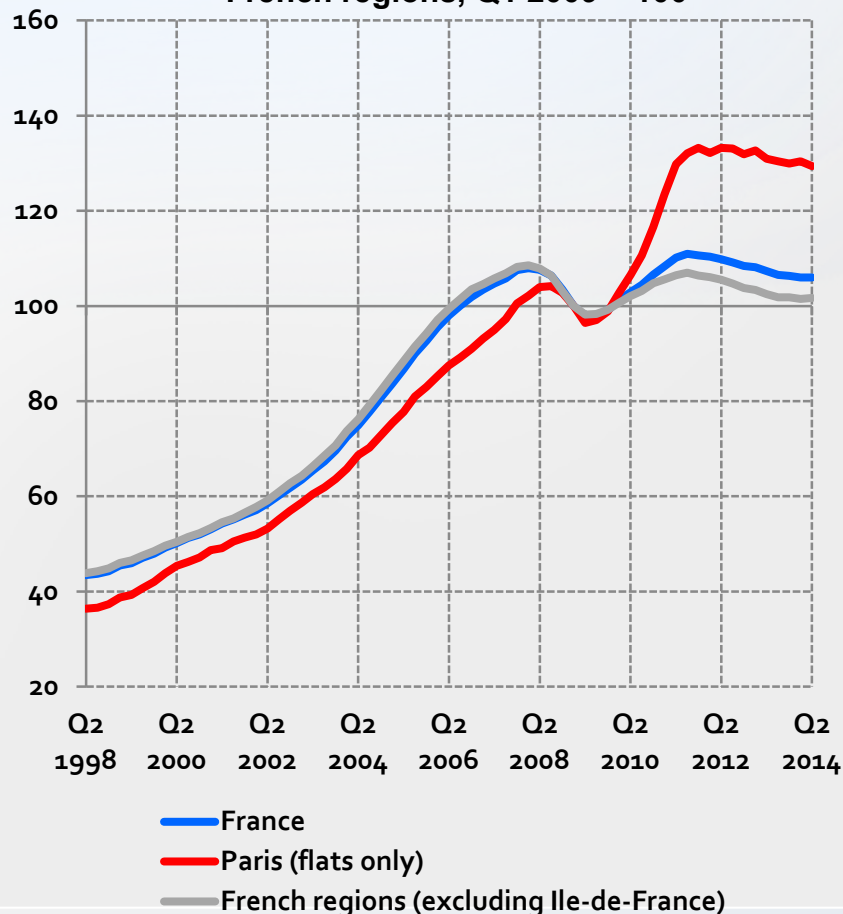
France is another example of indices divergence



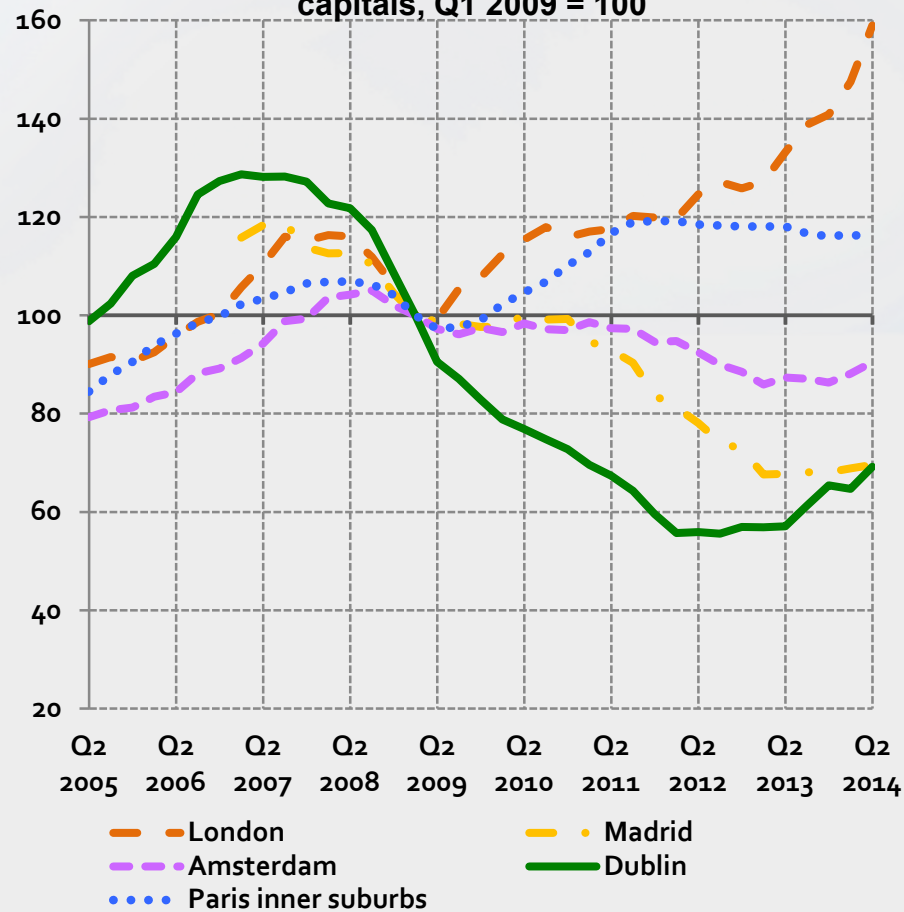
Source: INSEE, FNAIM, Crédit logement, IPD. Banque de France computation

Geography matters

Property price indices for France, Paris, and French regions, Q1 2009 = 100

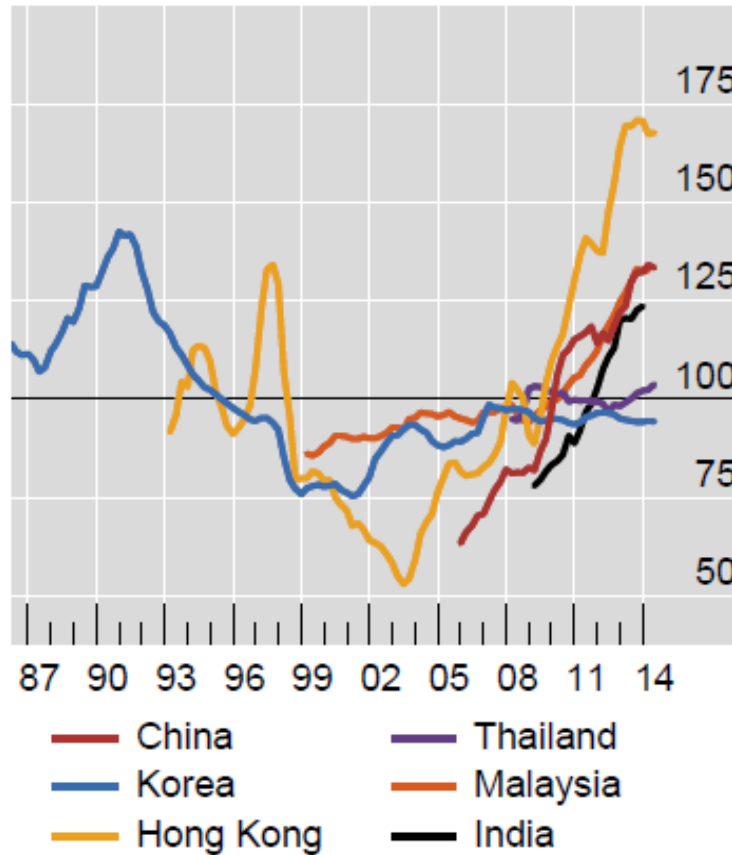


Property price indices for several European capitals, Q1 2009 = 100



By contrast to Europe and the US, house prices rise strongly in many Asian countries

International house price indices
Emerging Asia

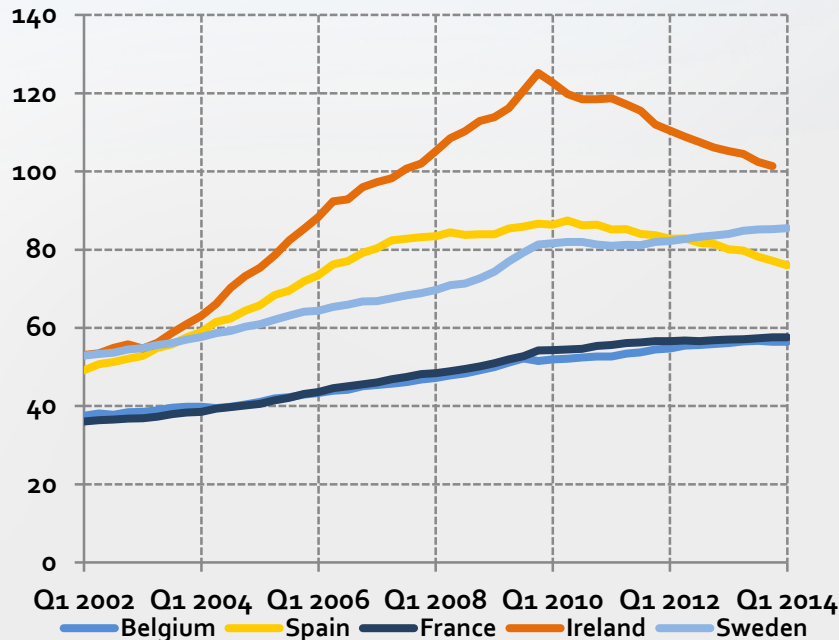


Source: BIS

2. Making an economic and financial analysis

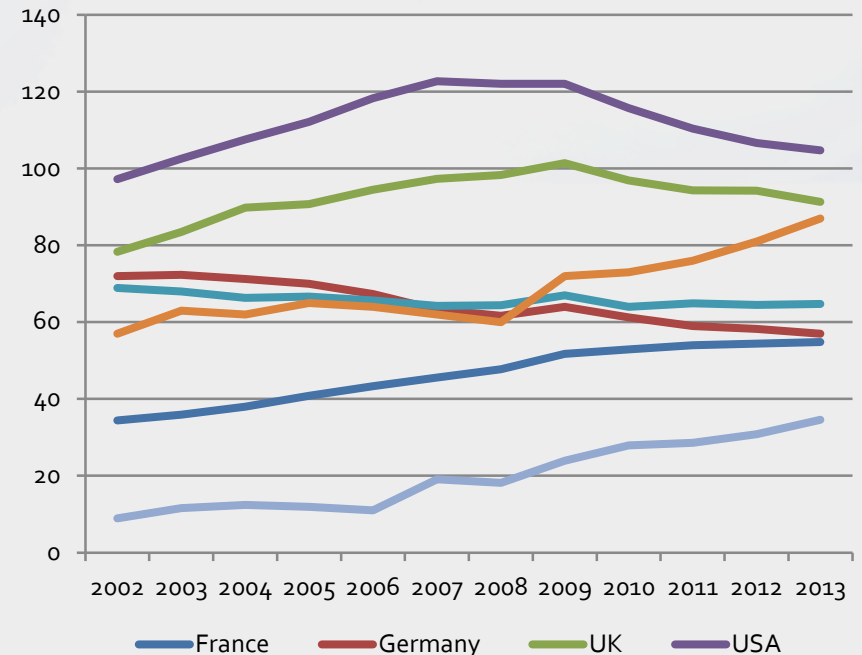
A simple early warning signal: Residential property prices corrections generally took place in countries with HH debt to GDP above 70%

Ratio of households' debt to gross domestic product at market prices (in %)



Source: ECB

Household debt (% of GDP)

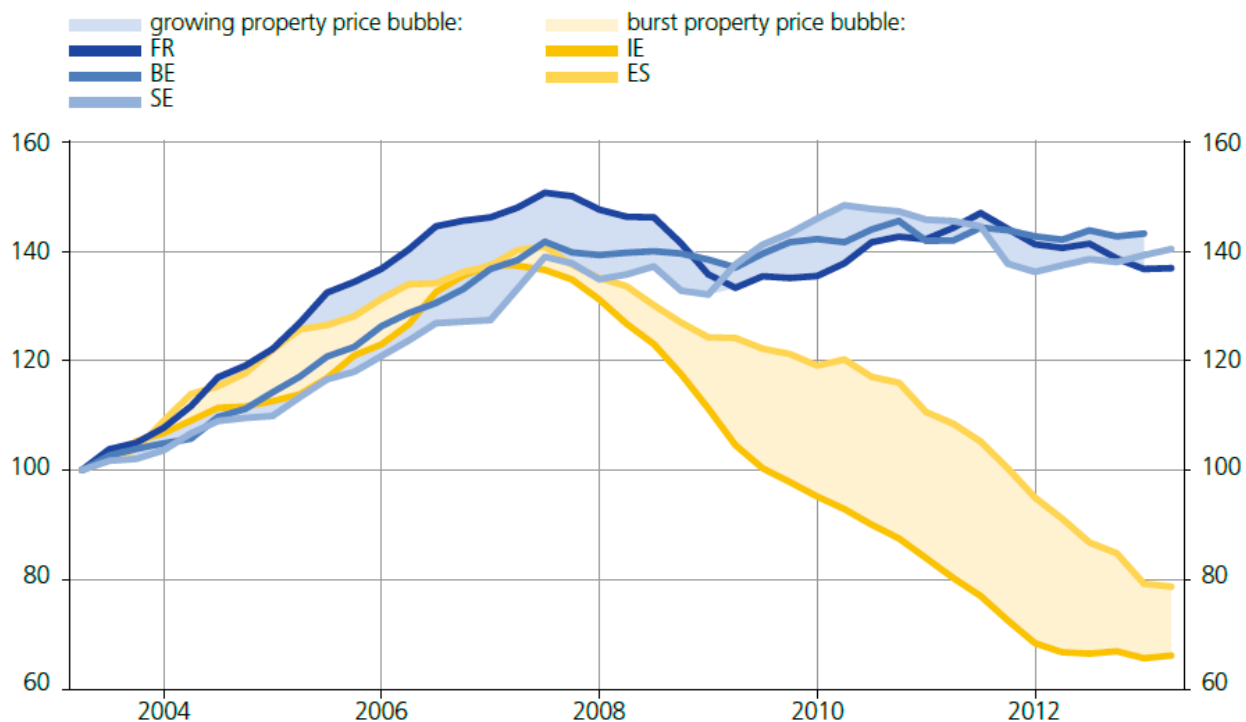


Sources : Banque de France, Bank Negara Malaysia, BIS, IMF

And when the crisis comes, prices can be plummeting dramatically

Heterogeneity in EU residential property markets

(real property prices; Q2 2003 = 100)

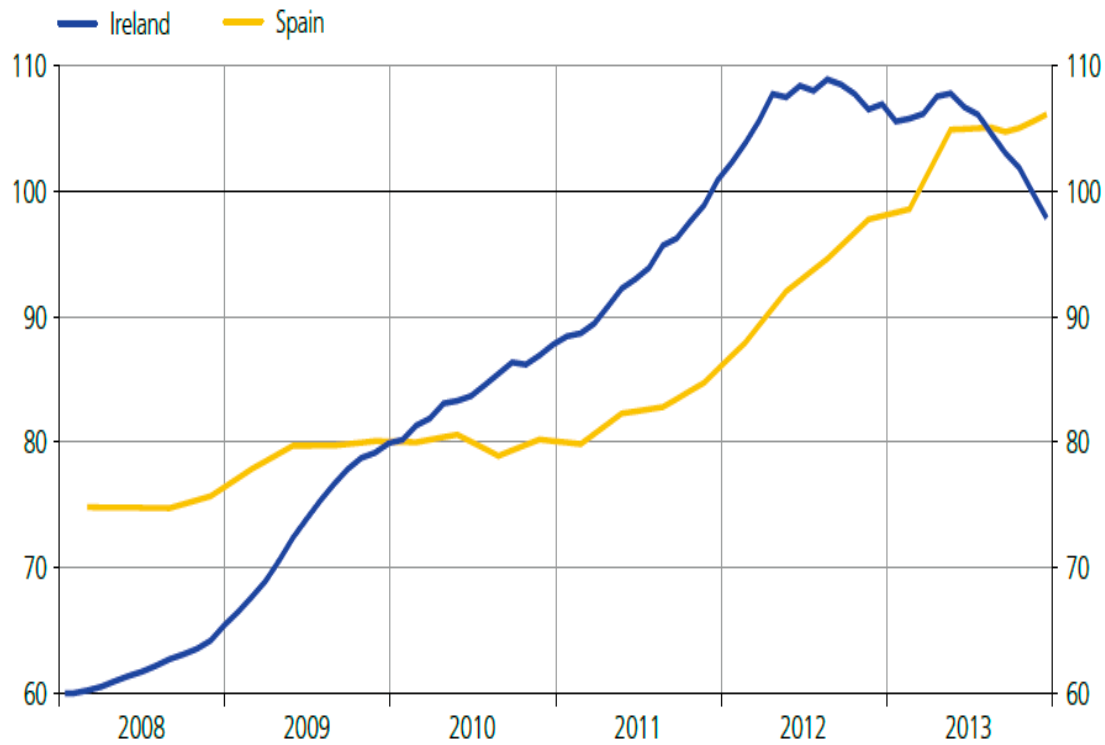


Source: ECB.

3. Policy steps

As said in the presentation, LTV is not fully convincing

The evolution of LTV ratios, as driven by a decline in property prices
(percentages; mark-to-market LTV)



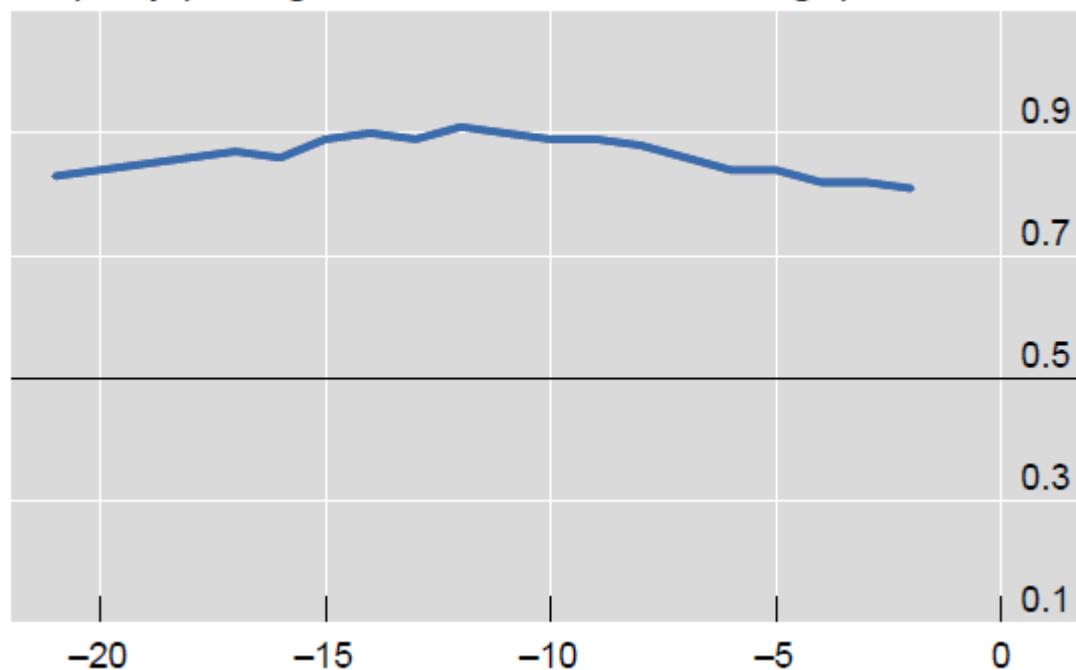
Sources: NCBS and statistical offices in Ireland and Spain.

Property prices boom is a fairly good leading indicator of systemic crises

Property prices, credit booms and systemic crises

AUCs for different forecast horizons

Property price growth and credit-to-GDP gap



Source: BIS

3 main tools:

- At the micro level but for macro purposes: Pillar 2 of the international solvency ratio
- Household indebtedness to GDP
- Credit growth to GDP

Still a question mark: what about the shadow banking?