

Wu Xiaoling: Stepping up the study of the housing financing system and promoting the healthy development of housing finance in China

Speech by Ms Wu Xiaoling, Deputy Governor of the People's Bank of China, at the International Seminar on the Housing Financing System, Beijing, 25 April 2006.

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Ladies and Gentleman,

Good morning.

I am happy to join you in such a warm spring season to discuss housing financing issues and provide explore policy options for development of housing financing system in China. Here, on behalf of the People's Bank of China, I would like to express my warmest welcome and sincere appreciation to your presence at this important gathering.

The Seminar was part of the cooperation program between the PBC and the World Bank to conduct a joint research on strategic issues concerning China's housing finance. I hope through this seminar, we could learn from the successful experiences of other countries to design the framework and development targets of China's housing financing system from a strategic point of view. Here, I would like to stress three points.

I. Great attention should be paid to issues of real estate and real estate financing.

Maintaining price stability and promoting economic growth are the main policy targets of almost every central bank in the world. After 1980's, large fluctuations in the real estate market have drawn high attention of governments and central banks around the world.

First, the real estate industry plays an important role in an economy and interacts with the commodity, service and factor markets as a pillar industry; therefore it can significantly pull the growth of the GDP. The real estate industry has direct and indirect relations with some 57 industries according to estimation, and in 2001, contribution of the real estate industry to the GDP growth is around 1.9 to 2.5 percentage points. In 2005, investment in real estate development reached RMB1575.9 billion yuan in China, accounting for 17.78 percent of the total fixed assets investment and 8.6 percent of the GDP. In the Chinese economic transition, continued urbanization process and housing monetization will promote the development of real estate industry, so the real estate industry will be one of the important pillar industries for a long period of time in future.

Second, Housing is related to people's lives. A suitable house provides the basic living protection and a comfortable living environment that improves living quality, so housing policy and real estate industry development policy are important components of a moderately wealthy society and relevant to the realization of social development targets. According to the National Statistics Bureau's investigation in 2002, housing property, the main assets of households, accounts for 47.9 percent of households' assets, while housing loans are the main liabilities of the Chinese households that have direct influence on other households' expenditures.

Third, real estate finance concerns with financial stability. Development of the real estate industry is characterized by long production period, intensive capital requirements and time difference between capital supply and demand. Accordingly, financial support is needed to solve the difference. In the European and American countries, except housing construction, other housing related business falls in the category of financial service. In China, the proportion of real estate financing to total financing grew rapidly, with the real estate loans reaching 3.07 trillion yuan at end-2005, accounting for 14.84 percent of the outstanding balance of total RMB loans of the financial institutions, or 16.75 percent of the GDP. In particular, commercial housing loans stood at 1.84 trillion yuan, accounting for 8.9 percent of the outstanding balance of the RMB loans of the financial institutions, or 10.0 percent of the GDP. Therefore, sound development of real estate financing is crucial to maintaining a sound financial system. Real estate bubbles will affect the economy and people's lives seriously, especially when the bubbles burst, so each central bank in the world has to keep a close watch on it. Both Japan and Hong Kong had very impressive lessons in this regard.

Fourth, housing price is closely related to the consumers' price. Although housing price is a sort of asset price, due to the fast flow of money between commodity market and capital market in modern era, central banks should keep an eye on housing price and capital movement. In recent years, real estate financial control measures have become an important part of macro adjustment policies.

In short, central bank is responsible for promoting the healthy development of the real estate financing and must conduct a deep analysis of the relevant institution building.

II. Research on housing financial system must be accelerated.

Housing reform in China was conducted gradually following the famous dictum by Mr. Deng Xiaoping, i.e. "crossing river by touching the stones". A market-based housing system in line with Chinese situation has been basically established after 20-year explorations, and at the same time the housing financial system dominated by banking loans was formulated. In recent years, however, the system has shown some unsuitable signs and required further reform to accelerate its development. Leaders of the State Council have instructed that we should review the housing reform and the real estate development experiences in full scale so as to identify the broad target and tasks in the future.

I think we should focus on the following aspects in studying the housing financial system:

First is the products system. A variety of financial products should be developed to serve different purposes and customers. Currently, we don't have such housing financial products that are targeted at special groups of people in the society, such as low-income families and entry-level staffs. Even in commercial housing financial field, bank loans are the major products, so risks are excessively concentrated in the banking sector. We should promote housing financial products innovation to ward off risks.

Second is the market system. Housing financial market should consist of different layers, including not only the indirect credit market, but also direct financing market which provides both direct financial instruments and marketplace to defuse relevant risks, such as credit maturity mismatch and liquidity problems. Development of the housing financing should also rely on the development of the capital market and money market.

Third is the organization system. Housing financial market should comprise not only financial institutions providing direct financing to the customers, but also institutions that involve in housing construction, trading and consumption such as the property appraisal agencies, loan insurance (guarantee) institutions, accounting offices, law offices and rating institutions etc.

III. Research should be conducted down to the earth to formulate a proper development blueprint.

Both academics and governments have made great efforts to improve China's housing financial system by studying international experiences, with some policies achieving good results while others entailing further studies. Starting in 2003, the PBC has focused on resolving the strategic issues of housing financial development and communicated with the Ministry of Construction, the China Banking Regulatory Commission and have reached important consensus. In 2005, the PBC began to cooperate with the World Bank in relevant research and study program aimed to learn from the mature experiences of other countries. This Seminar represents a further endeavor in this direction. I would like to give my personal views about the comprehensive research project:

First, we must learn the essence of other countries' experiences, not only the surface. Attention should be paid to successful experiences and failure lessons. The housing financial system of China and development strategy should be designed through summarizing experiences and exploring the embedded rules.

Second, Chinese social, financial and economic situation should be fully considered and market development principles should be observed when mapping out our housing financial system and the development strategy. The long-term plan and strategy should be made in conjunction with the current development requirement of the housing market. We have already had some lessons in this regard.

Third, Research should be based on concrete work. Development plan and framework should be formulated considering actual market needs. Currently, products innovation should be made a top priority to promote market development. In 2005, the PBC led the initiative of credit assets

securitization on a pilot basis and launched MBS in the inter-bank market successfully. At the same time, commercial banks have made great efforts in self-initiated product innovation after the removal of the ceiling on interest rates of housing loans, and new products such as fixed rate housing loans were developed. Generally speaking, great efforts should be further made in products innovation, especially financial products for the middle & low-income customers. I hope efforts could be made in strengthening research in housing financial products for different type of customers. Additionally, efforts should be made not only to increase financing channels in the primary market, say REITs and real estate development bonds, but also to develop secondary market tools.

All in all, I hope we could jointly make efforts to promote the healthy development of the real estate market, financial stability, the improvement of living conditions of the people and the sustained and sound development of national economy.

Thank you.