

**IIMB-IMF Conference on housing Markets, Financial Stability and Growth
Bangalore, India – December 11-12, 2014**

Summary of Conference Proceedings

Over the past 15 years, the population of Bangalore—India’s ‘Silicon Valley’ and the venue for the [IIMB-IMF conference](#)—has doubled to 10 million, leading to house price booms in some areas of the city while low-income people lack decent housing. Taming the boom while also raising the lot of slum dwellers requires not just targeted prudential measures but also development of the housing finance system and sensible urban policies. In Bangalore, for instance, efforts by policymakers and civil society groups are leading to improvements in conditions in the LRDE slum (the name refers to a government agency located down the road), which sits next to one of the city’s many elegant technology parks.

Three themes

Bangalore’s experience of simultaneous booms and slums is being repeated in many cities in India—as detailed in a new [paper](#) on the Indian housing market prepared for the conference—and indeed in many emerging markets. House prices have increased over the past year in the vast majority of the 30 countries that make up the IMF’s new [index](#) for emerging markets—often due to booms in particular cities and high-end segments—and accompanied by strong credit growth.

In the past, many such twin booms in house prices and credit have been followed by financial collapses and recessions. Ratna Sahay (IMF) noted in her [speech](#) that many governments in emerging markets are “anxious to avoid a repeat of this history” and are actively using a range of policy tools to tame these booms.

At the same time, cities are grappling with the pressures of urbanization, which are only expected to increase: a [presentation](#) by Tony Venables (University of Oxford) cited projections that by 2050 the world will have over 2 ½ billion new urban dwellers—that’s “nearly 1 ½ million new arrivals into the world’s cities every week,” he said.

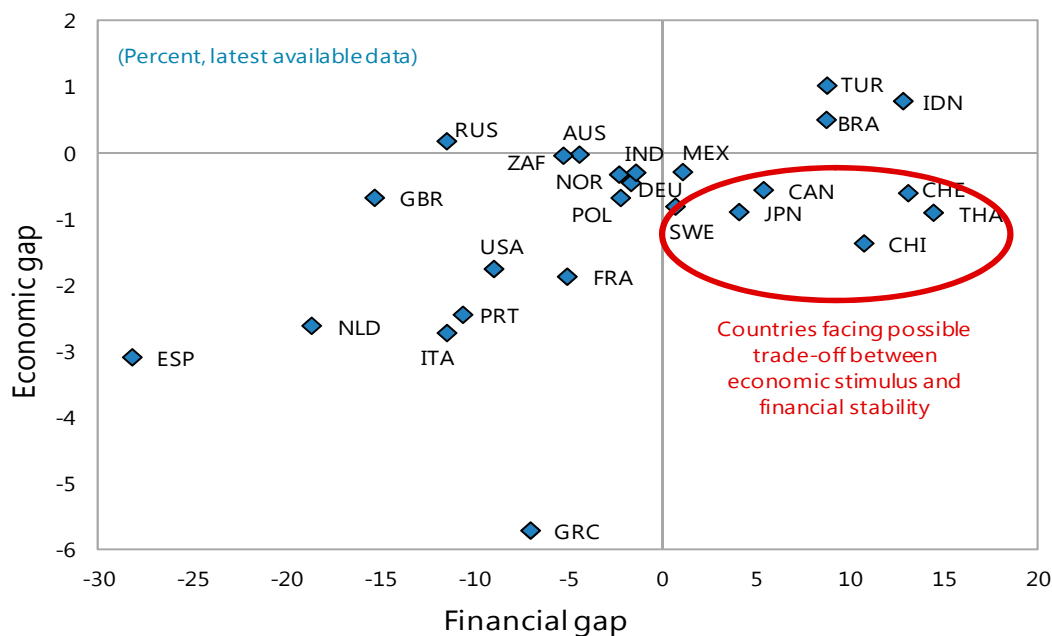
Against the backdrop of these developments, discussions at the conference centered around three policy imperatives:

- how governments, in both advanced and emerging markets (EM), can maintain financial stability without jeopardizing economic recovery;
- how EMs can preserve financial stability while also promoting financial development to provide affordable housing for rapidly urbanizing populations;
- how to improve the quality of housing data in EMs so as to enhance the surveillance of housing market developments.

A delicate trade-off

Many EM governments are using macroprudential tools—such as limits on loan-to-value ratios and debt service-to-income ratios—to curb excessive increases in credit growth and house prices.

Chart 1: Trade-off between Macroprudential and Monetary Policies



Note: The "economic gap" is the average between the output gap and the deviation of the 2015 inflation forecast from target. The "financial gap" is the average between the credit-to-GDP gap and the property-price gap.

Source: Sandri et al (2014)

Sahay’s speech illustrated the potential tradeoff between preserving financial stability and reducing economic slack that their use can pose. She clustered countries into groups based on the extent of their present economic slack (defined as low or negative output gaps and inflation lower than target) and financial slack (defined as credit/GDP ratio lower than historical trend and real house prices lower than historical trend)—Chart 1. Sahay noted that for most countries there was at present “no conflict between monetary and macroprudential goals.” The bulk of the countries are in the south-west quadrant, so that continuing with accommodative monetary policies would help on both economic and financial fronts. Brazil, Turkey and Indonesia have both economic and financial overheating, requiring tighter policies.

However, a group of advanced and emerging economies does face a trade-off, Sahay said. In the cases of Canada, Chile, Japan, Sweden, Switzerland and Thailand there is some economic slack but financial overheating at the same time. In these cases, a tightening of macroprudential policies can run the risk adding to the economic slack when those policies have sizable effects on aggregate demand. Sahay said the solution for countries that faced such trade-offs now or in the future was to use “targeted macroprudential policies in specific segments of the housing and credit markets” if they wanted their monetary policy to remain accommodative.

Hans Genberg (Bank Negara Malaysia and SEACEN) [pointed out](#) that extensive use of limits on loan-to-value ratios can lower the risk of financial crisis but also curtail the depth of mortgage markets. Taming house price booms can also be costly if some of the wealth being generated goes to productive uses like increased R&D expenditure, as Chetan Subramanian (IIMB) and Jong Kook Shin (Newcastle) [argued](#) has been the case empirically. This potential conflict between preserving financial stability in the near term and longer-term goals financial development and growth also featured in the [work](#) of Jihad Dagher (IMF) and co-authors and in the conference sessions devoted to the development of housing finance systems and urbanization policies.

“Too little” finance

Leading off the discussion, Veronica Warnock (University of Virginia) said that “in most countries around the world the problem is not too much housing finance, but too little.” Many

large emerging markets such as Brazil, India, Kenya and Turkey have mortgage debt to GDP ratios of under 10 percent compared with ratios of 80 percent in the United States and 100 percent in Denmark. Her [analysis](#) shows that mortgage markets are deeper in countries with stronger legal rights for borrowers and lenders (i.e. bankruptcy and collateral laws), greater ease in registering property, better credit information systems, and lower inflation volatility. This was corroborated by Frank Warnock (University of Virginia) in his detailed [look](#) at the housing finance systems in Latin America. In Mexico for instance the registering of property requires 5-6 steps with each step requiring an average of 75 days. Similar hindrances were also cited by Charan Singh, Lalit Kumar and H.A.C. Prasad in their paper on the Indian housing market.

Simon Walley (World Bank) [summarized](#) the lessons for policymakers from the cross-country experience on how to develop their housing finance systems. One clear lesson, Walley said, is for governments to focus on “improving the enabling environment rather than on becoming a property developer.” That is, governments should try to remove impediments such as weak legal rights framework and cumbersome procedures to register property and then rely on the private sector to develop affordable properties and long-term mortgage products for households. G. S. Sandhu, a senior Indian government official, observed that such public-private partnerships had been tried in India—notably in Rajasthan, a province in North-West India—but success had so far been limited.

Walley also cautioned against an over-emphasis on home-ownership to satisfy housing needs: “rentals should play a role as part of inclusive housing policy,” he said. In Ho Song [described](#) Korea’s chonsei system, which is intermediate “between ownership and rental.” Households pay an up-front deposit in exchange for no or limited rental payments, security of tenure for a certain number of years, but with no ownership risk. Song said the system “works well for those who need amenities, such as schools, for specific periods but do not want to be locked in for longer-term ownership.” Frank Warnock concurred, noting that “in the end, housing outcomes need to improve. Ninety percent homeownership isn’t necessarily better than sixty percent.”

Cities and slums

Over half the world's population lives in urban areas and this proportion is expected to increase to two-thirds by 2050. This makes it important, said Venables, that the interaction of market forces and government policies generates "livable and productive" cities: "A good city provides people with both a better venue for productive employment and a better quality of life than can be achieved in rural areas." Venables reviewed the population density patterns of several cities and found that many conformed to the "textbook answer" for how a city should be organized, namely that the population density was high near the city's center of production and declined with distance from the city center. However, some cities had "inefficient urban forms"; among them were Moscow and Brasilia, where government planning had played an overwhelming role in determining how the cities were organized.

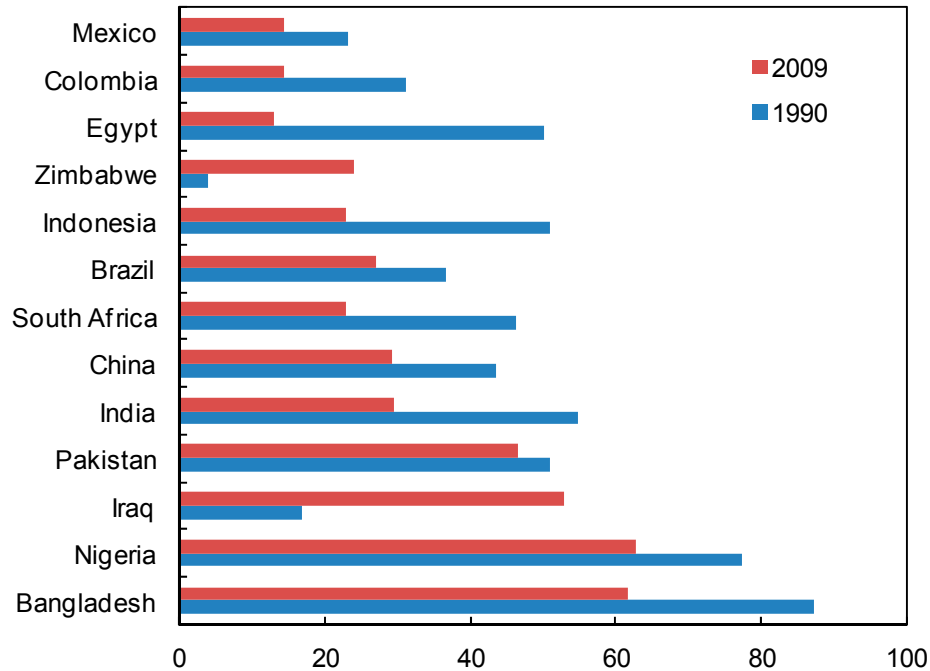
The same is true of Johannesburg, where there was a conscious attempt during apartheid to keep much of the population away from the city center. The urbanization in many other African countries "has been seriously dysfunctional," Venables said, drawing on his [work](#) with Paul Collier. These cities cannot provide productive employment because they lack the population density and supporting infrastructure that firms require to produce at the scale needed for global markets. Nor do they offer a better quality of life because much housing lacks basic public services that in principle are far cheaper to provide for urban dwellers than for dispersed rural populations. These developments were the results of "faulty housing policy," said Venables, but he added that "fortunately, Africa is less than halfway through its urbanization process and so there is still time to correct them."

Somik Lall (World Bank) [pointed out](#) that with many developing countries urbanizing at lower income levels than was the case in the past, "the process will be messy as there is still some way to go before investments in housing take off." Even in countries such as China with strong housing growth—"China has added in the last fifteen years the equivalent of Europe's entire housing stock"—the pace of urbanization has been too rapid to avoid the growth of slums. Simon Walley (World Bank) noted that while the proportion of the urban population living in slums had

declined over the past two decades in most countries, it remained high in many EMs (see Chart 2). Five countries—China, India, Nigeria, Brazil and Pakistan—accounted for nearly 60 % of the total global slum population.

Chart 2: Urban population living in slums

Urban population living in slums, %



Source: UN-HABITAT

Ashima Goyal (IGIDR) concluded the sessions on housing finance and urbanization with observations on the Indian experience. She questioned whether the “textbook model of monocentric cities” was the only one that could be followed, pointing out the success in India of many “satellite cities,”—small cities that spring up around the periphery of a major metropolis. She also said the housing finance system in India has to show flexibility in making loans to borrowers who are employed in the informal sector and lack proper documentation; the challenge, she said, is to do this without repeating “the subprime problem in the United States.” R. V. Verma (former chairman, National Housing Bank) said that concerted efforts had been made in India to ensure that none of the housing finance companies suffered a failure.

Big (need for) data

For most people, buying a house is their biggest single purchase. But while prices of other consumer purchases, such as toothpaste, are readily available through regular surveys, good data on house prices takes a fair bit of construction. For emerging markets in particular, long series of historical data—which are generally needed for rigorous econometric analysis—are difficult to come by readily. Alessandro Rebucci (Johns Hopkins University) and his co-authors have assembled a database that expands the availability of historical house price data for emerging markets. In his presentation at the conference, Rebucci used this database to study the impact of increased global liquidity—an increase in the international supply of credit—on house prices. He presented evidence that an increase in global liquidity by 1 percent of world GDP raises house prices in emerging markets by 3 percent, over three times the impact in advanced economies.

In recent years, house price data has become more easily available. Hites Ahir (IMF) [described](#) these new sources and how they are being used in the construction of the IMF's house price index for emerging markets. Mick Silver (IMF) [agreed](#) that there have been major advances in data dissemination and guidelines to countries on how to compile house price indexes, though vast differences remain across countries in data source and methods. Different indices for the same country also sometimes paint a divergent picture, and particularly so around turning points when accurate measurement is needed the most. Despite these challenges, Silver's [paper](#) discussed some success stories to guide countries in improving their house price data: countries can “make their own luck,” he concluded.