

Opening remarks

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Opening remarks: Shenzhen conference on “Housing & Financial Stability in China”

Good morning, I am Prakash Loungani, Chief of Development Macroeconomics in the IMF’s Research Department.

Let me add my welcome to the one you heard from the IMF’s Deputy Managing Director Mr. Zhu. We are very happy to sponsor this conference with the Shenzhen campus of the Chinese University of Hong Kong and with Princeton University.

Housing is on everyone’s mind. The collapse of housing bubbles can be very costly.

► In Japan, house prices rose by about 40 percent during the mid-1980s; the collapse was followed by a ‘lost decade’ in which incomes did not grow and house prices fell by over 40 percent.

► In the United States, house prices increased by about 30 percent between 2001 and 2006; their collapse was followed by the global financial crisis.

The collapse of the housing sector can often lead to a broader collapse of the financial sector. And the cost to the government of cleaning up the mess can be very high. In the case of Ireland, for instance, government bailouts of banks from the housing collapse ate up 40 percent of the country’s GDP.

That is why we are starting out this conference with a close look at the risks in the Chinese housing market. We have some the leading experts on this topic here today.

But as Mr. Zhu mentioned, this conference will explore not just one but three important themes.

In addition to housing, we will look more broadly at the state of the financial sector in China, particularly risks in the banking and corporate sectors. Again, some of the world's experts on this are in the room.

And the third and final theme is the integration of China in global financial markets. As you know, the renminbi will be included in the IMF's currency basket from October 2016 onwards. It will have a weight of nearly 11 percent in the basket, compared to about 8 percent for the yen and the UK pound. So the renminbi's weight in the basket will be only behind the dollar and the euro.

This is an important development. It shows recognition by the international community of the reforms that China has already undertaken to become part of international financial system. And it signals China's commitment to continue on that path. Let me not say more on this now because the IMF's senior representative, based in Beijing, will be here tomorrow to tell you more in person.

So those are the three themes: housing sector risks in China; relatedly, the health of China financial sector; and the integration of China into the world financial system.

This is an ambitious agenda with an impressive group of speakers. It could not have been put together without the efforts of Professor Xiong. So let me thank him for this and for giving the IMF the opportunity to be part of this conference. And let me thank the local organizers in Shenzhen for the tremendous amount of work that they had to do in a fairly short time to organize the conference.

I look forward to interesting discussions. Thank you.