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Macroprudential Policies and Housing Prices: A New Database and Empirical Evidence for CESEE

by Vandenbussche, Vogel and Detragiache

Comments by Stefan Gerlach, Central Bank of Ireland

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Central Bank of Ireland
Eurosystem

Macroprudential Policies and Housing Prices:

A new database and empirical evidence for CESEE

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Big picture

- Two main contributions:
  - Compiles a comprehensive data base on Macro Prudential Policies (MPP) used in CESEE.
  - Offers empirical evidence on the impact of MPPs & house prices (HPs) in CESEE:
    1. Changes in (i) *minimum CAR*, (ii) *marginal reserve requirements on foreign funding*, and (iii) *marginal reserve requirements on credit growth* matter.
    2. Other MPPs do not appear to have impacted on HPs.
    3. MPPs more effective when tightened and in booms.

- Authors discuss potential weaknesses:
    1. Endogeneity bias.
    2. Effects delayed by more than 2 quarters.
    3. Effects may have occurred on announcement.
    4. Coding of the policy variables (scoring rule).

- Interesting paper provides some preliminary but provocative results and offers a data base for other researchers.

MPP and house prices

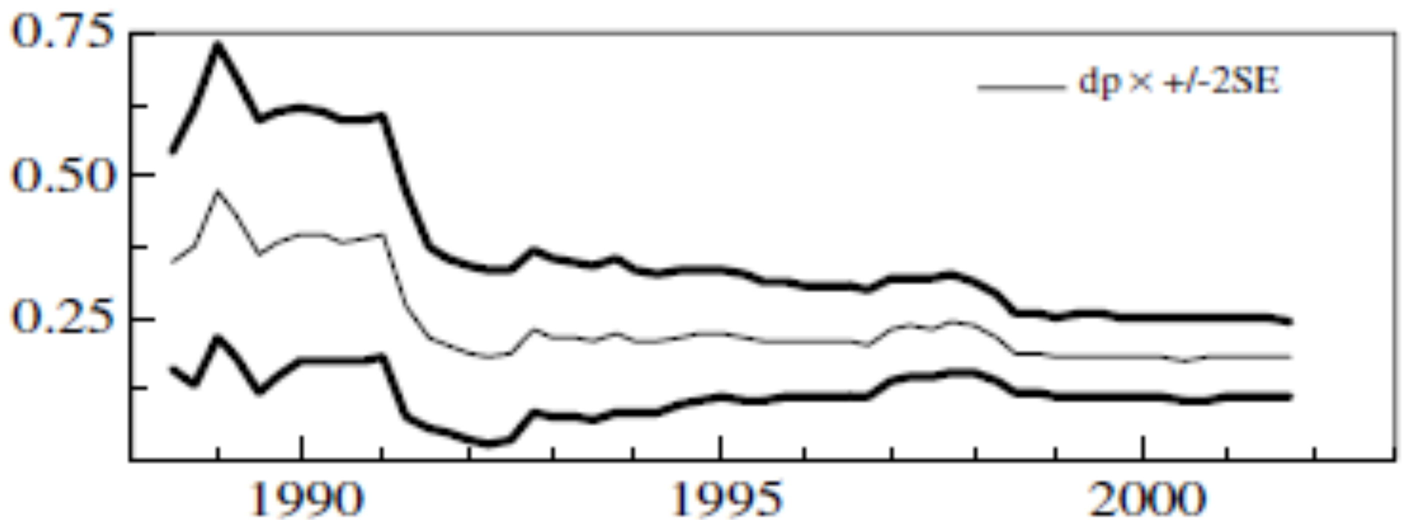
- House price bubbles have played central role in many episodes of financial instability.
  - Discouraging that so few MPP instruments are significant.
  - Perhaps the MPPs studied here were not intended to slow HP increases but to protect the banking system?
    - ✓ LTVs & DTIs commonly used & effective in Asia but little used in CESEE.
    - ✓ Restrictions of FX lending might have been motivated by consumer protection considerations rather than HP concerns.
  - To assess effectivness of MPPs, need to understand (i) why they were adopted & (ii) how they were intended to work.

- Also useful to provide more information about the CESEE economies and whether they are special.
  - ✓ Eg., how important is credit for house purchases?

- How does MPP work?
  - ✓ Given stance of MP and state of economy, MPPs reduce banks' ability and willingness to lend.
  - ✓ Banks raise intermediation spreads and restrict lending.

- Authors motivate looking at HPs for data availability reasons.
  - ✓ Not clear that HP data are better.
  - ✓ Many other factors impact on HPs.
  - ✓ Also study impact on credit growth and lending spreads.

- Gerlach and Peng (JBF 2005) study credit growth and HPs in Hong Kong around the introduction of a LTV in 1991.
  - ✓ Model carefully the relationship between HP & credit.
  - ✓ Expectations of future economic conditions impacted on the demand for housing (and HPs) and therefore credit demand.
  - ✓ Recursive estimates show that credit demand much less sensitive to HPs after LTV was introduced.



Other comments

- The results warrant more discussion.
  - Why are changes in the minimum CAR effective in contrast to changes in risk weights?
  - Many variables with "wrong" & significant signs in Table 2.
    - ✓ Max FX loans/capital; risk weight on FX mortgages, consumer loans, FX consumer loans, total consumer loans ... ; liquidity ratio; FX liquidity ratio, FX DTI; Total DTI.
    - ✓ Reflect endogeneity or introduced after the crisis?
- Choice of endogenous variable:
  - Since HP-to-income ratio is stationary, why not use it as dependent variable?