

DIVERGING HOUSING PRICES WITHIN COUNTRIES

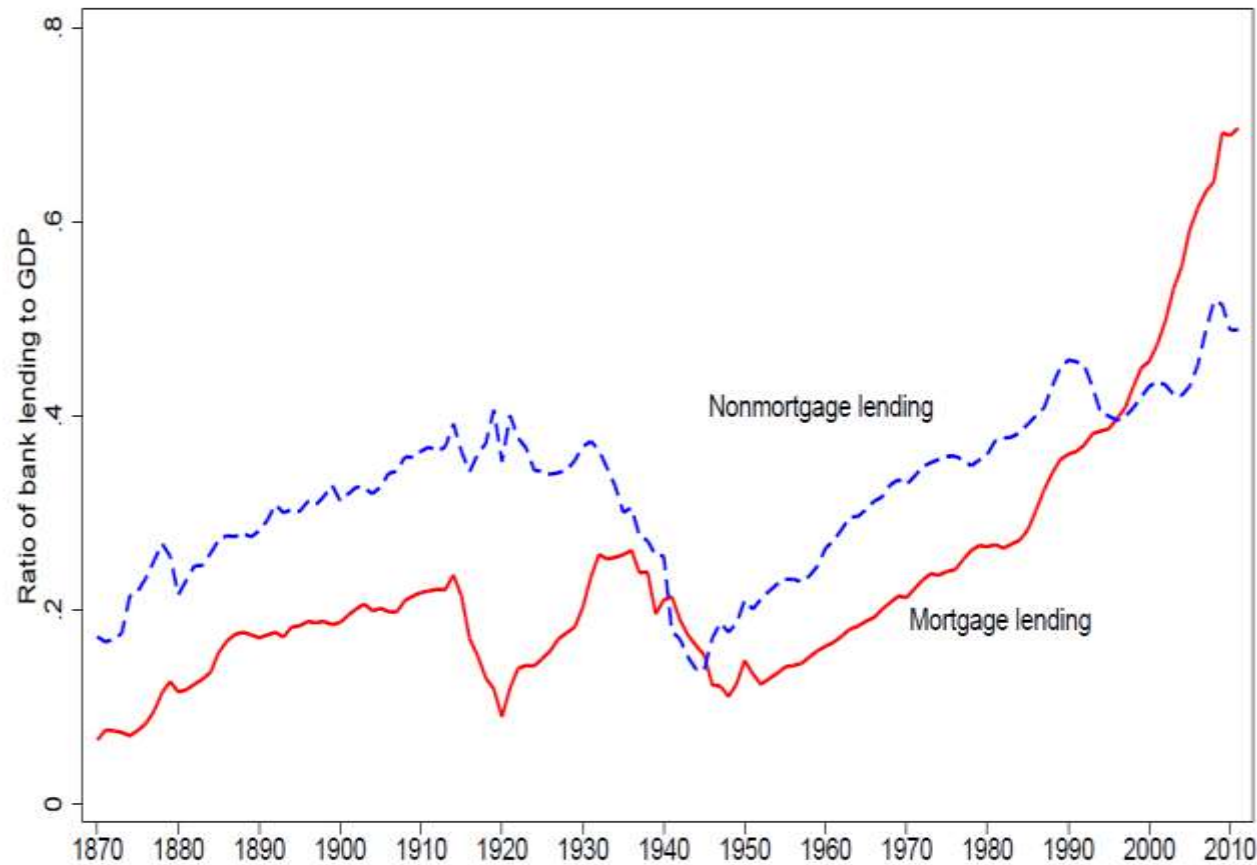
Dirk Schoenmaker, Bruegel
Macroprudential Policy Conference, Bank of Lithuania
11-12 May, Vilnius

Agenda

1. Housing prices within countries: empirics
2. Monetary vs macroprudential policy
3. National vs regional macroprudential policy
4. Conclusions

Dominant role of mortgages in bank lending

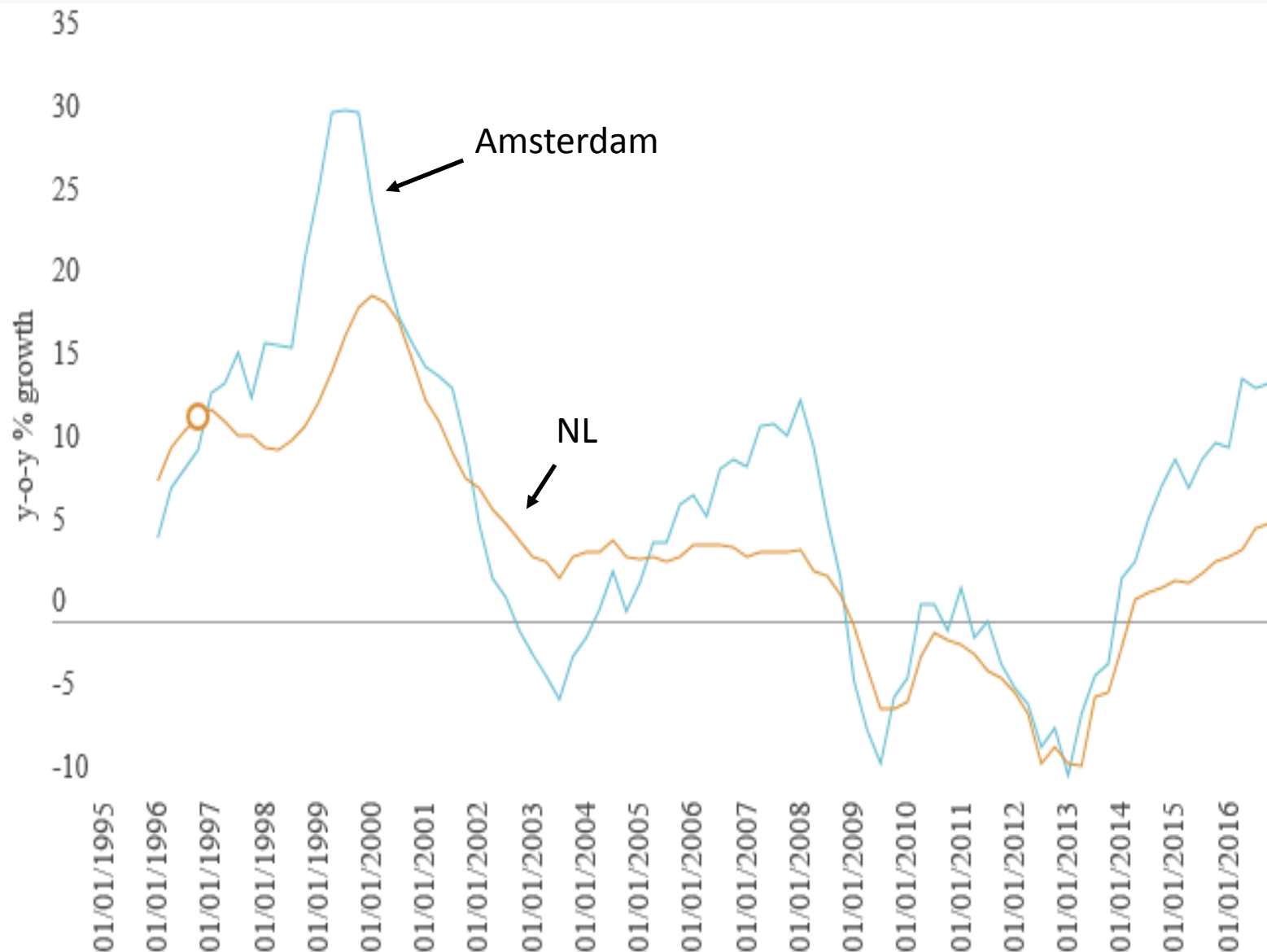
Figure 2: Bank mortgage and non-mortgage lending to GDP, 1870–2011: Average ratio to GDP by year for 17 countries



Source: Jorda, Schularick and Taylor (2014), *The Great Mortgaging*

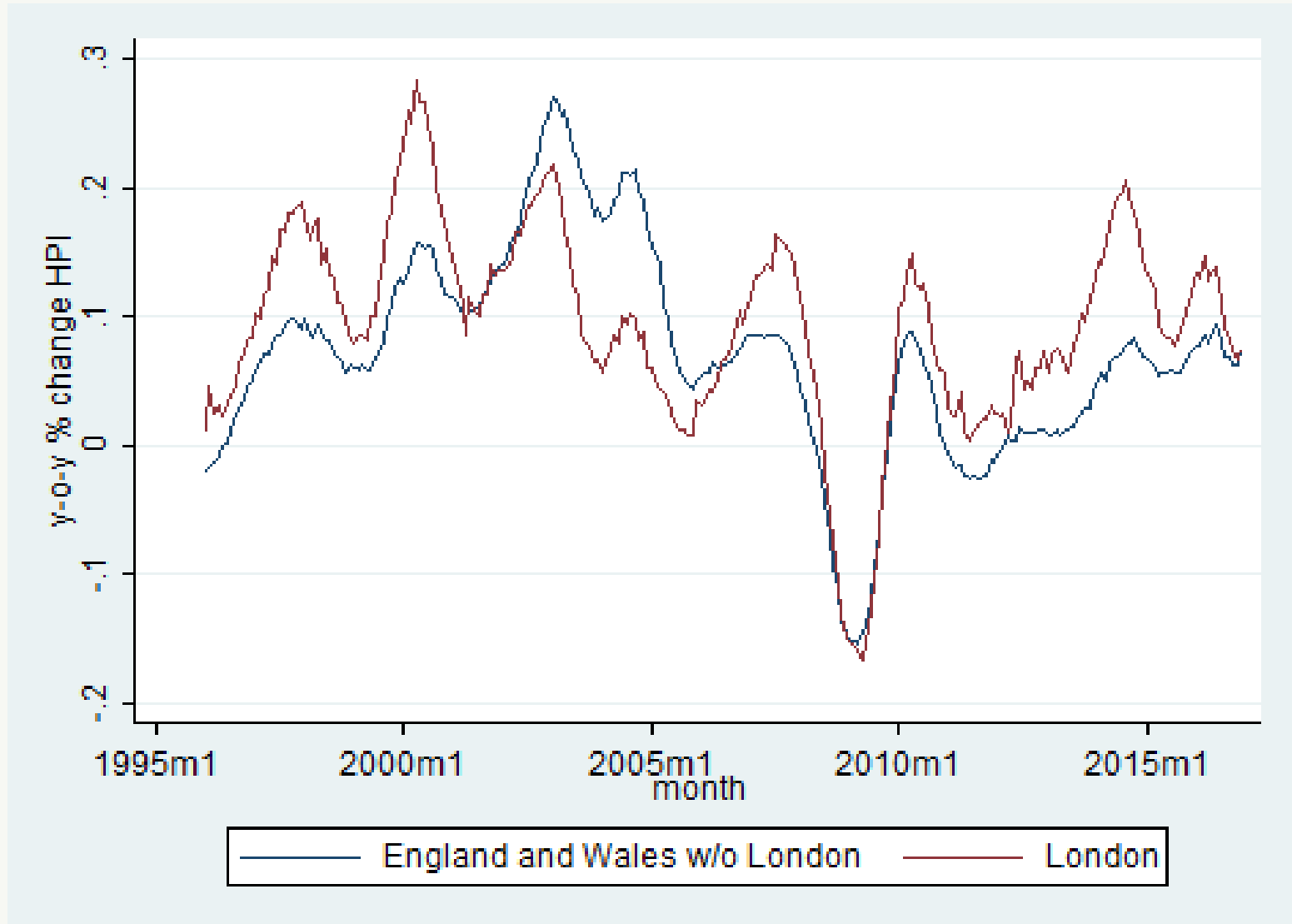
Notes: Mortgage (residential and commercial) and non-mortgage lending to the business and household sectors. Average across 17 countries. See text.

Amplification in capital cities: Netherlands

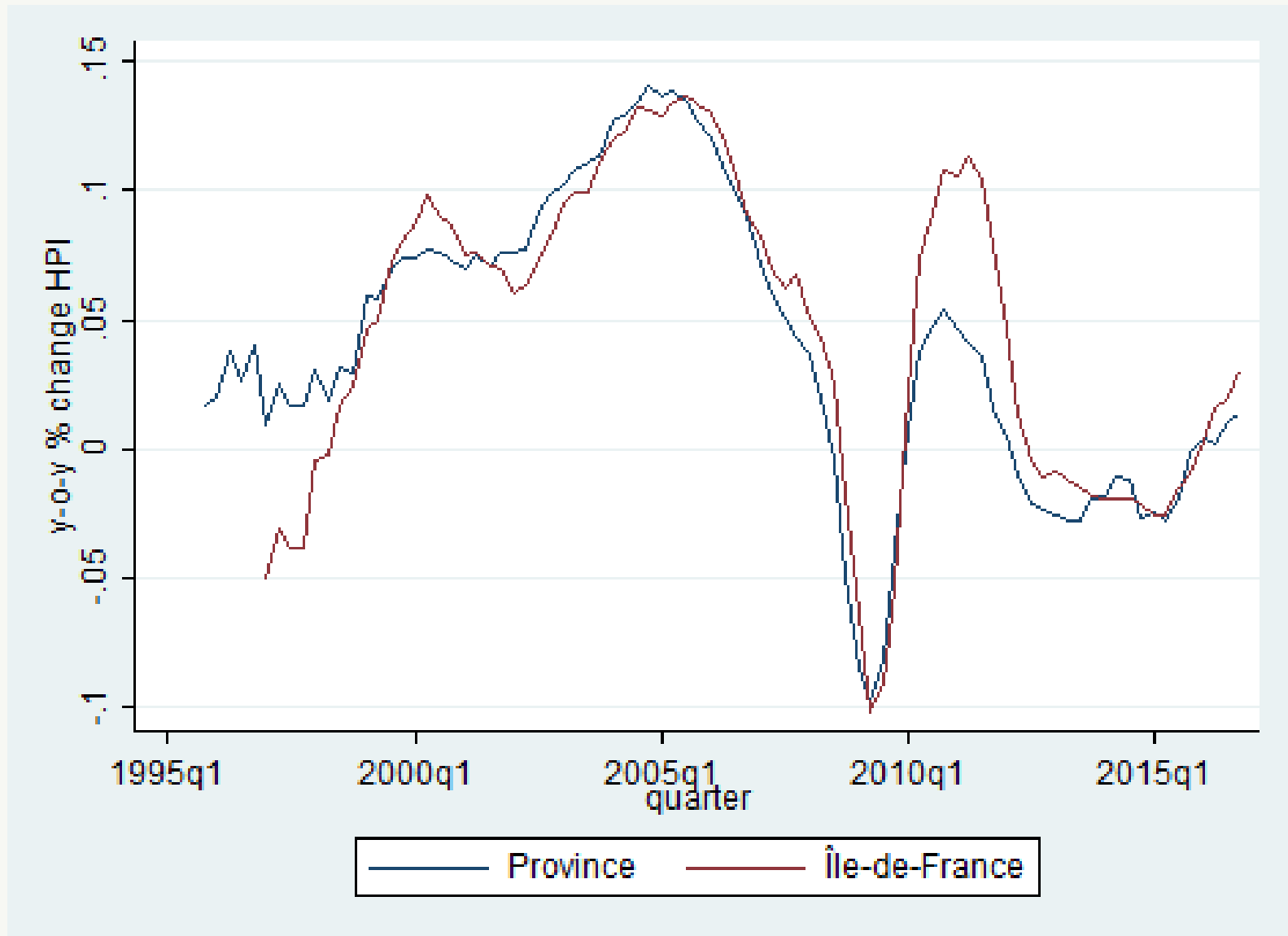


Source:
Schoenmaker
(2017),
Blogpost,
Bruegel

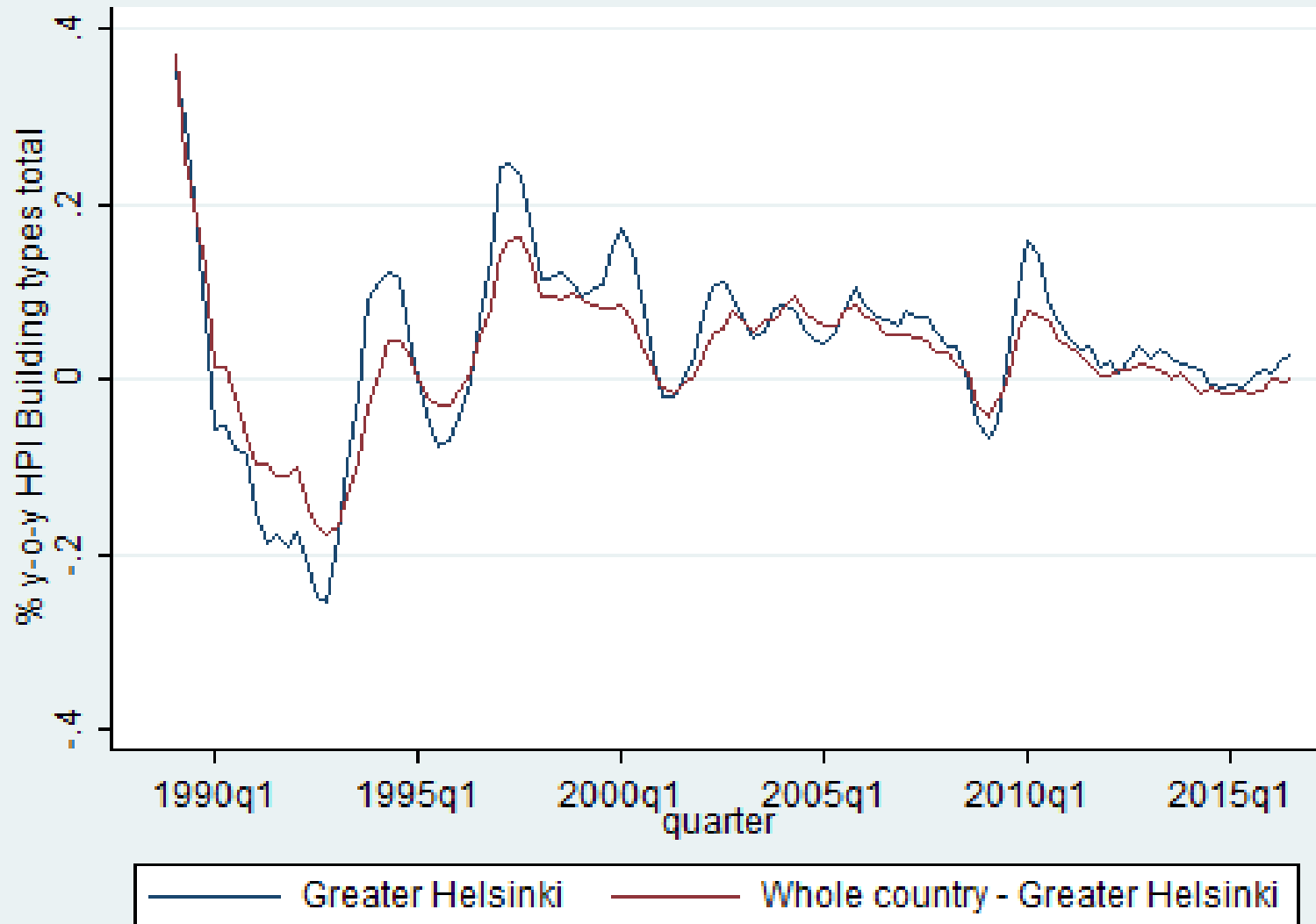
Amplification in capital cities: UK



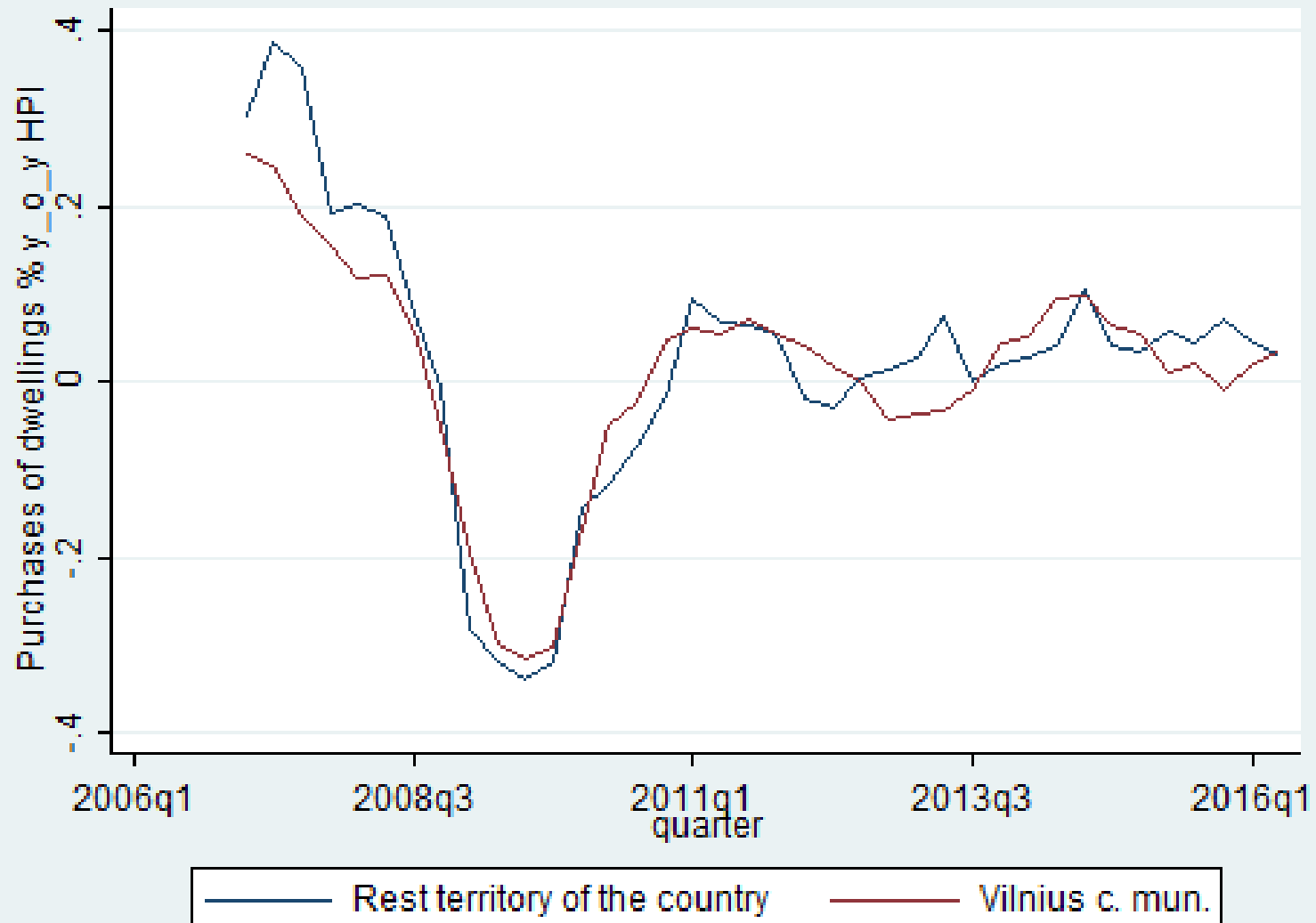
Amplification in capital cities: France



Amplification in capital cities: Finland



Amplification in capital cities: Lithuania



Policy questions

- Macro vs macroprudential
 - Tinbergen principle: two objectives – two instruments (Fell, 2017)
 - In particular with QE -> need to dampen bubbles
- Macroprudential
 - General or housing specific? -> housing greatest source financial crises
 - National or sub-regions? -> diverging housing prices
 - Mortgage credit facilitates rising housing prices
 - Is divergence possible? -> yes, by zip-code (Korea)

LTV in Korea

	Before 1-8-2014		After 1-8-2014
	Bank-Insurance	Other financial firms	All financial firms
Capital area	50-70%	60-85%	70%
Non-capital area	60-70%	70-85%	

Conclusions

1. Yes, need to target house prices for macroprudential policy
2. Picture is heterogeneous
 - Some countries strong difference capital vs countryside
 - Other countries less
3. Need for divergent macroprudential policy
 - LTV can be on regional base to slow down hot spots
 - While not slowing down cold spots

Questions?