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NEW OPPORTUNITIES AND FUTURE GLOBAL CHALLENGES

Adieu
to Maury

Frontiers
of Monetary
Policy:
Interview with
Doug Laxton

Housing
Strikes Back:
Remaining
Attuned
to Risks

Tariffs in a
Globalized
World



Policymaking:
New Frontiers
Using Big Data

A World
with Central
Bank Digital
Currencies

The 19th
Jacques Polak
Annual Research
Conference:
A Note from
the Organizer



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Note from the guest editor



In the Spring/Summer 2018 issue, we highlighted how the period after the global financial crisis saw a recovery in housing markets, but also a surge in populism and the revolution brought about by big data. Here, we go one step farther. Future challenges will encompass going from a recovery in the housing sector to a new boom. This would not only pose new threats to macroeconomic and financial stability that central banks will have to tackle, but might also contribute to an even wider gap between young renters and wealthier homeowners.

Populism has spun off into a new wave of protectionism. As technology and the wave of big data advance, so will the economy and policymaking. New policy measures will have to be supported by more complex sets of data with availability beyond traditional official sources and by new communication strategies. The large repository of data available throughout the digitalized domain provides vast, unexplored opportunities for policymaking. And new opportunities and challenges in the digital era can arise with the possible digitalization of money as we know it.

Marika Santoro

Housing Strikes Back: REMAINING ATTUNED TO RISKS



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It's déjà vu all over again! House prices are going through the roof in major cities across the globe, reviving memories of the US boom that ended in a global financial meltdown.¹ They are also raising concern about affordability, with millennials increasingly priced out and at risk of turning into “[forever renters](#).”

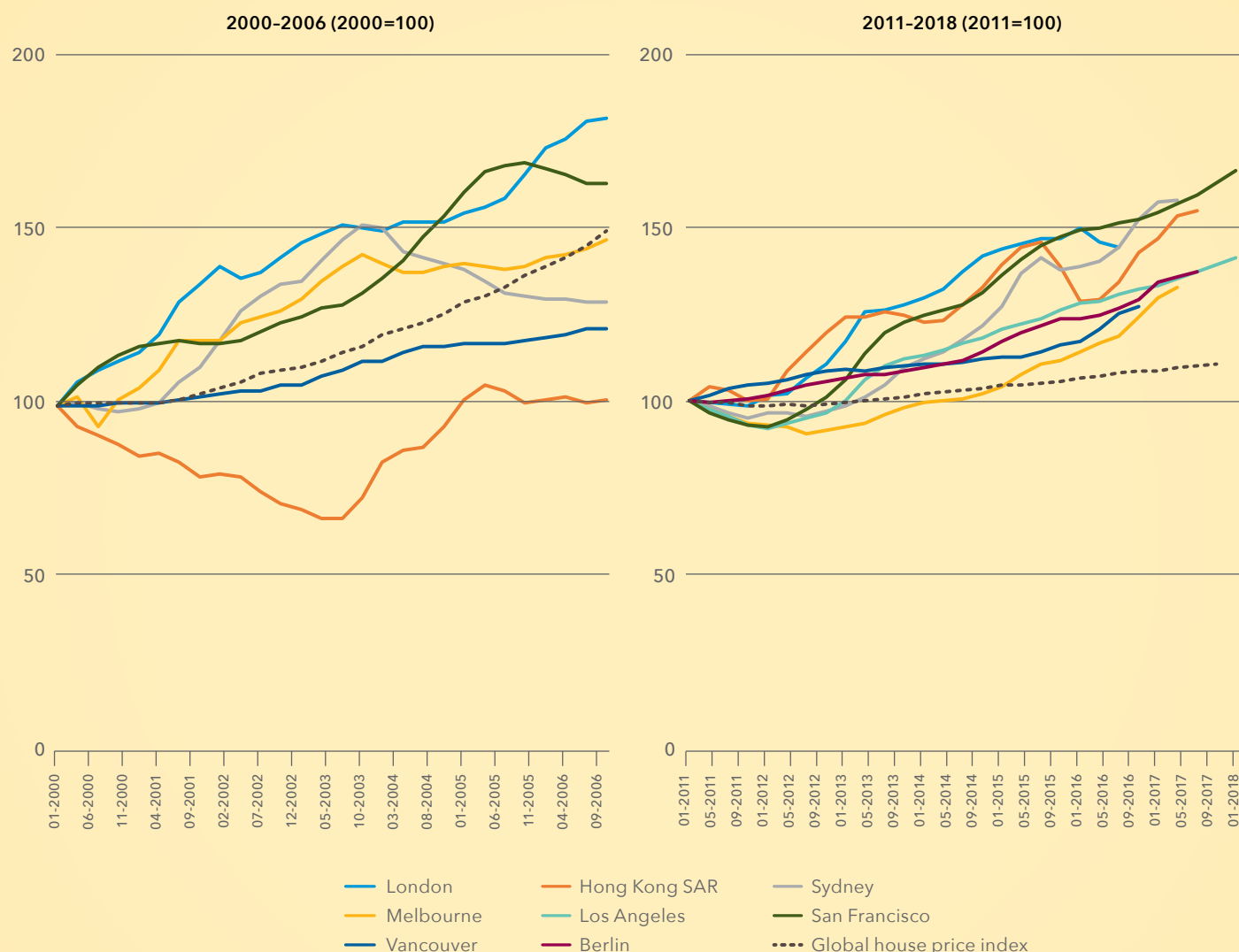
¹See, for example, these recent articles on [London](#), [Hong Kong](#), and [Los Angeles](#).

Housing serves a dual purpose: it is a residential good for occupants but at the same time an attractive asset for occupants and investors alike. It is often, but not exclusively, the latter of these that makes housing markets susceptible to booms and busts. While housing is local, drivers of house price booms do not have to be (especially in a financialized and globalized world): sometimes booms are driven by speculative demand from domestic buyers, other times housing in one country might become a destination for capital inflows from abroad.

A forthcoming IMF working paper studies the role of foreign buyers. The work is founded on the idea that political uncertainty in emerging markets may drive wealthy people from these countries to invest in real estate in developed economies as a safe haven for their wealth, as some Chinese investors do in Vancouver and some Middle Eastern investors do in London. "Foreign buyers may concentrate their house purchases in areas where a large number of people originating from their homeland reside," according to Yu Shi, one of

the authors of the study. "This could be in anticipation of possible future migration or because information asymmetries are mitigated through communication within the diaspora." The availability of granular house price and demographic data allows the authors to test this hypothesis in US housing markets. They find that, when political uncertainty rises in an emerging market, house prices increase more in areas where a relatively large share of residents were born in the emerging market country in question.

Figure 1: Real house prices in selected cities (01-2000 = 100)



Source: IMF staff calculations.



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This study is an example of broader developments in the IMF's analysis on housing markets over the past decade. "You will see that the IMF's analysis has adapted as housing markets have become more 'globalized' and developments at the subnational level have gained greater prominence" says Hites Ahir, one of the authors of a forthcoming chapter on IMF surveillance and policy advice. Worldwide aggregate trends are regularly summarized in the [Global Housing Watch](#), and cross-country assessments of real estate vulnerabilities are a regular part of the [Early Warning Exercise](#), while [country reports](#) provide more detailed coverage of macro-relevant housing market developments at

a more granular level. Chapter 3 of the [April 2018 Global Financial Stability Report](#) documented rising synchronization of house prices around the world and showed that countries' and cities' exposure to global financial conditions may explain this trend.

Ongoing work aims to continue to improve the understanding of what drives real estate market developments, and what policymakers can do about them. For instance, IMF economist Michal Andrle, together with Miroslav Plašil from the Czech National Bank, is building a [toolbox](#) that contains two indicators: house prices implied by the borrowing capacity of households, and those that correspond to a "fair value" derived from the net present value of rental income. These improve upon simple price-to-income or price-to-rent indicators by bringing on board current and expected dynamics of income and interest rates. "Our approach is forward-looking, reflects the specifics of mortgage plans and national tax structures, and does not need historical data for estimation," says Andrle. That is not to say that history cannot be helpful: A forthcoming IMF paper uses a general equilibrium model to reach the conclusion that house price rises in the US during the 2000s can largely be explained by an increase in fundamental housing demand. This increase could be driven by easier access to mortgage financing, and the expectation that the underlying shock is persistent.

"By having a model which can match historical data features on land and structure prices and quantities, we can learn a great deal about drivers of house prices," says Weicheng Lian, the author of the paper.

Policymakers (and millennials) might wonder: What can policy interventions achieve? The experience of Hong Kong SAR is instructive. Following a steep rise in house prices over the past decade, authorities tightened macroprudential regulations on residential mortgages and raised stamp duty taxes on house purchases, including those aimed exclusively at foreign buyers. A recent [IMF working paper](#) by Pau Rabanal uses a macroeconomic model with a housing sector to demonstrate that, without these policies, house prices would have been approximately 10 percent higher. "Stamp duty taxes are helpful in slowing down house price appreciation, especially for fixed-exchange-rate-regime economies," says Rabanal. "But treating residents and nonresidents differently can be controversial because, in that case, stamp duty taxes are considered as capital flow management measures." Increased vigilance—guided and supported by research—remains key to preventing the present conjuncture in global housing markets from becoming a sequel to what happened in the run-up to the global financial crisis.



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