

Comment
on
The Effects of Macro-prudential Policies on
House Prices Using Real Transaction Data:
Evidence from Korea

By Hosung Jung and Jieun Lee

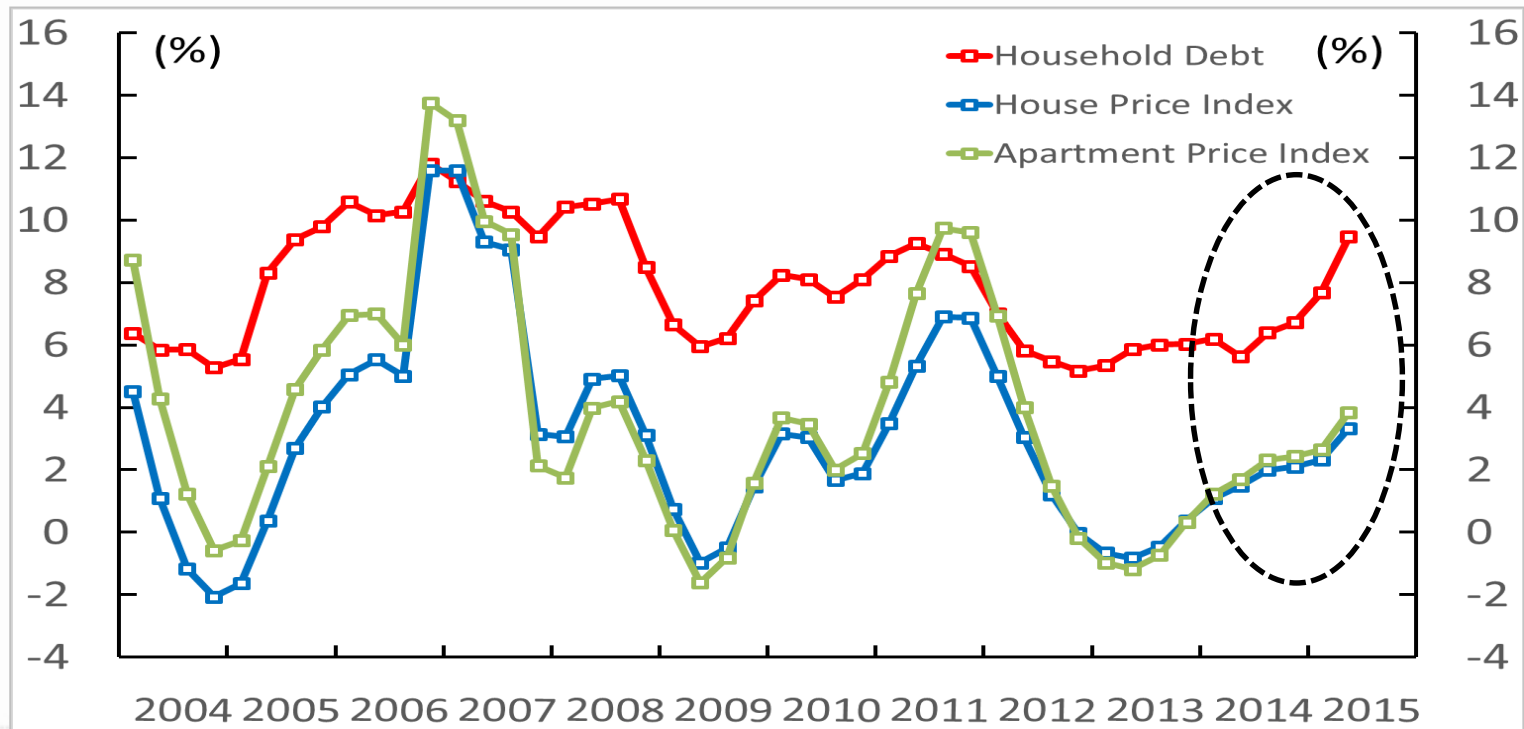
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Motivation

- Did LTV and/or DTI policies affect house prices?
➔ A critical policy question in Korea, today.
(in association with the rising household debt)



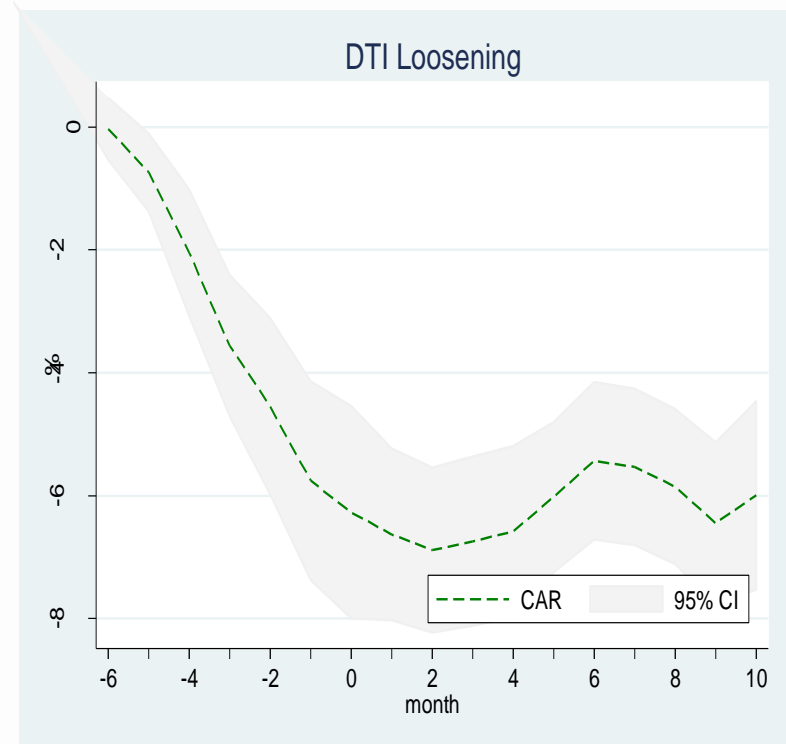
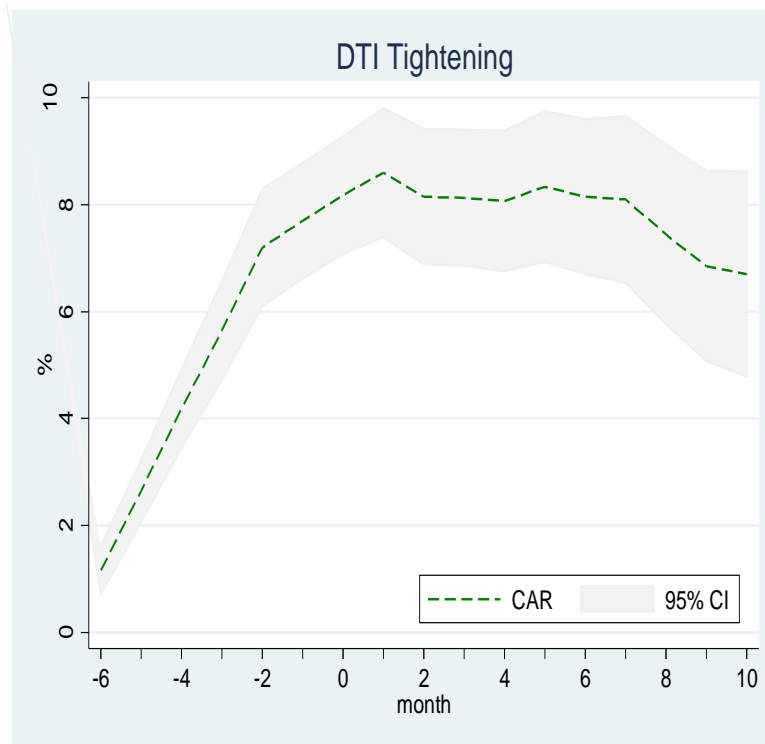
Korea, A Good Sample Country

- Korea provides ample variations to study.
 - ➔ LTV and DTI limits have been changed over time, depending upon housing market situations.
 - ➔ In addition, different parameters were applied to various regions, financial institutions, and cheap vs. expensive houses.

(See the Appendix of the paper!)

Results

- Yes, they (DTI in particular) did affect house prices.
→ Convincing! (Empirical studies were carefully carried out.)

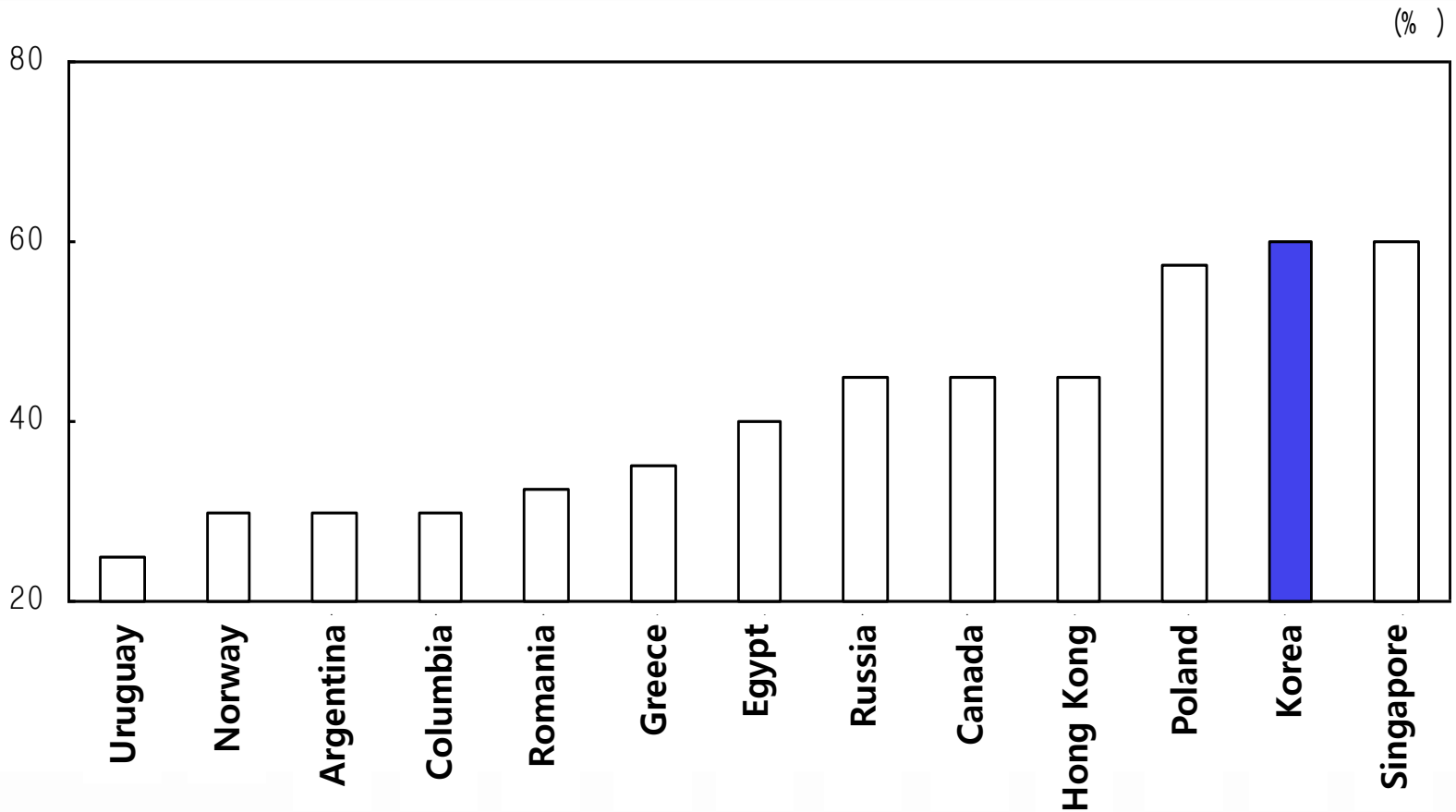


Implications?

- **Authors refrain from drawing policy implications on the current Korea's macroeconomic situation, though they present important relevant findings.**
 - **Low inflation and growth → Interest rate ↓**
 - **Rapid debt accumulation with house price hike → DTI ↓**

DTI Limits

□ The DTI limit in Korea is one of the highest.



Source: Kim (2015), KDI.

Question 1

□ Metric for DTI?

- DTI appears to be far more volatile than LTV.
- This seems to result from the assumption that DTI is 100% for the regions with no DTI regulations. (100% may be a reasonable approximation for LTV, but for DTI ...)
- The coefficient estimates in regressions must be sensitive to this metric, though the results for event studies may not.

Question 2

□ Quantitative interpretations of the estimates?

- Take, for example, the estimates from the panel regression: Coefficient for log interest rate (-0.0902) is approximately 3 times as large as that for log DTI (0.0380).
- Does this imply that the house price increase due to a 10% cut of interest rate (say, 5%→4.5%) can be offset by a 30% decrease in DTI (say, 60%→42%)?
- If so (though I am not confident of this interpretation), isn't DTI of limited use in practice at least to stabilize house prices when the interest rate changes?

House prices replaced by household debt?

- Normally, asset prices can hardly become policy targets.
- But quantity variables such as debts are more acceptable targets for macro-prudential policies.

Similar results for household debt?

- If so, we can draw more direct policy implications on the nexus of monetary and macro-prudential policies.

- **Can we imagine a system in which LTV and/or DTI are determined as functions of house prices (or household debt)?**
 - **Empirically, this implies a simultaneous system estimation in which policy reaction functions can also be estimated.**
 - **Perhaps more interesting is theoretical exploration (such as simulation exercises) that can possibly study (optimal) policy reaction rules.**
 - ➔ **Regarding macro-prudential policies, research on policy rules that can potentially guide actual policies in practice seems to be very rare.**

To sum up

- I enjoyed reading the paper and learned a lot.

Thank You