

Editor's Introduction

↳ By Friedemann Roy

Recently, Dubai opened the world's tallest tower (at 828m). This launch took place after the economy had suffered from an immense economic shock and crushing property prices, requiring a 10 billion US\$ bail-out loan by neighbouring Abu Dhabi. This opening seems to be a "we can still" bounce back reaction to demonstrate to the outside world the opportunities this location and region offers. This belief is probably underpinned by current economic development. According to the Financial Times, there is little doubt that the most vibrant region of the world is still Asia.¹

However, this welcome economic upswing is accompanied by certain risks, mainly asset bubbles.² Elsewhere in the region, notably in China, Hong Kong and Singapore, equity markets have surged and property prices are on the rise. For example, property prices in Shanghai (China) increased 19% from March to July 2009.³ The People's Bank of China has already tightened its monetary policy to slow down bank lending. Whereas Asia is confronted with house price inflation, countries like Mexico or Romania have seen their mortgage markets falter. Thus, one outcome of the crisis is the heterogeneous development of mortgage markets worldwide.

What does the current situation mean for housing affordability? Which policies and instruments are recommended to help low- and middle-income groups remain in their homes or ensure access to housing finance? This edition of Housing Finance International aims to provide answers to these questions.

The first article, by Marianna Blix Grimaldi, Daphne Nicolitsas and Moreno Roma, deals with the roots and consequences of the Swedish and Japanese banking crises of the early 1990s, and their effects on the respective national housing markets. The authors approach this topic by attempting to highlight similarities and differences between the experiences of these two very distinct economies, and the lessons that policy makers could extract. The article is organised into four sections. The first section reviews the trigger and the background to the crises in

Sweden and Japan, the second describes the macroeconomic consequences of the crises and the policies followed to deal with these. The third section discusses possible lessons emerging from dealing with the crises. Finally, the fourth section summarises and concludes.

The author of our second contribution is Victor Mints. He reviews the effects of the financial crisis on the countries of the former Union of Soviet Socialist Republics (USSR), e.g. Russia, Kazakhstan, Kyrgyz Republic, etc. He believes that no financial area was more affected by the financial crisis than mortgage lending in these countries. Only the substantial fiscal resources allocated by local governments enabled segments of the market to survive in several of those countries, while in many others, mortgage markets completely ceased to exist. This paper argues that the low-level of resilience demonstrated by mortgage lending was grounded in basic deficiencies of the mortgage lending model. The paper also argues that while the system was in place, it made housing less available for low-income individuals rather than making it more available for them.

Our next contribution, which is written by Man Cho and Kyung-Hwan Kim, expands on the question of how to enhance the measurement and management tools used to control mortgage default risk so that a country's housing finance system can extend its service to a larger number of marginal borrowers. They relate their findings to the Korean Mortgage Market. In their view, it offers an interesting case study because of several unique features of the regulations on mortgage lending to promote prudence in lending and contain house price increases.

Wolfgang Amann argues in the fourth article for a contextualised approach towards addressing the housing policy challenges of Central and Eastern Europe (CEE). Policy makers face a number of important challenges. Firstly, although house prices in urban areas are at similar levels to western prices, household incomes are considerably lower. Secondly, as the existing housing stock is deteriorating, construction levels are insufficient to meet

demand, especially for lower- and middle-income groups. Thirdly, rental markets are small and are even starting to diminish in some countries, which tend to operate within an inadequate legal framework. Lastly, housing policies in CEE countries are evolving amidst conflicting and often unclear messages from the European Commission regarding housing policy development.

Janet Xin Ge analyses in her article an alternative financing model to increase access to housing in Australia. Many households cannot afford a home due to high house prices in relation to their incomes. Various governmental support schemes provide only limited relief. In this context, she suggests the use of superannuation funds (or super funds) to help the low to moderate-income households improve their access to home ownership. She finds that with super funds housing affordability is likely to increase by 60% for the low to moderate-income families.

In our final article, Ralph Liu suggests the possibility of creating a new housing finance system based on simplified financial derivatives. A conventional legal ownership title includes the right to occupy and use the property, also called the "Shelter Value", as well as the benefit from price rises or the losses of price falls, which would constitute the "Economic Value". With a swap transaction, the economic value of conventional property ownership could be separated from the shelter value. Ralph Liu believes that this technique could allow homeowners to better manage the financial risk and return aspects of property ownership while maintaining their shelter value at all times.

I hope you will enjoy reading these articles. Please do not hesitate to make comments or suggestions in order to stimulate a wider debate, which will allow for a broader exchange of ideas and concepts. They are more than welcome!

Friedemann Roy⁴

¹ See Financial Times (5 January 2010), "Asia's recovery star burns brightest".

² In this context, see R. Zoellick, "Heed the danger of asset bubbles", Financial Times, 25 November 2009, page 9.

³ See www.globalpropertyguide.com, "Strong growth in China's housing markets", 29 September 2009.

⁴ The Findings, interpretations, statements and conclusions expressed herein are those of the editor alone and do not necessarily reflect the views of the International Bank for Reconstruction and Development/The World Bank and its affiliated organizations, or those of the Executive Directors of The World Bank. The authors of the articles of this edition present their independent views, opinions and assessments and necessarily do not reflect the views of the World Bank and/or its affiliated organizations, or those of the Executive Directors of The World Bank.