

Comments on Martínez-Carrascal: The interaction between house prices and loans for house purchase. Revised evidence for the Spanish case.

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Summary of the paper

Analyses house prices and house loans in Spain 1985-2009 using VECM.

A two-way interaction between house prices and housing loans: House prices are influenced by the availability of credit and household borrowing is influenced by house prices (because of, say, collateral constraints and wealth effects).

When either house prices or house loans are above their long-run equilibrium level, both loans and house prices should be expected to adjust downwards.

Both house prices and housing loans were substantially above their long-run equilibrium levels by 2008.

Looking only at house price disequilibria gives a far too optimistic picture of the situation.

Comments (1/3)

The questions addressed in the paper are evidently very important: The main reasons we are so worried about house price fluctuations relate to household indebtedness.

However, it is not clear that the aggregate measures of indebtedness are the most important ones. For financial stability, the distribution is likely to matter a lot. Moreover, changes in the availability of credit should affect only borrowing constrained households.

What about consumption loans? (Mortgage equity withdrawal)

Comments (2/3)

What is a typical reference interest rate for housing loans in Spain?

In theory, the appropriate interest rate should be a very long term real interest rate. Hence, the use of a (presumably relatively short term) nominal interest rate is problematic and should be discussed more thoroughly.

Apparently, people have found that real interest rates do not explain changes in house prices. In the case of the housing market, the "fundamentals" we use to assess whether houses are overvalued are not really fundamental...

Mention the evidence about money illusion and house prices.

Comments (3/3)

Discuss the quantitative aspects of the results: The overall disequilibria in both house prices and housing loans at the end of 2008 seem very high to me. (On the other hand, both house prices and loans are sluggish.)