

THE BUSINESS TIMES



S\$1.20



A SINGAPORE PRESS HOLDINGS PUBLICATION | businesstimes.com.sg | fb.com/thebusinesstimes | [@BusinessTimes](https://twitter.com/BusinessTimes) | CO REGN NO 198402868E | MCI (P) 037/12/2016

Monday, February 20, 2017

TOP STORIES

3

The Business Times | Monday, February 20, 2017

COMMENTARY

Should property cooling measures be relaxed?

The measures have been successful but rolling them back will need to be done in a calibrated and gradual manner

By Rohit Gupta

Singapore

IT HAS been seven years since the government first introduced cooling measures for the property market.

The latest property market data for Q4 2016 shows 13 straight quarters of decline. From the peak in Q3 2013, prices have fallen over 11 per cent (down 3 per cent in 2016 and 3.7 per cent for 2015).

Some property industry insiders and analysts are now calling for the government to relax the cooling measures.

But it is important not to look at these measures as purely "property cooling" but to view them from a more macroprudential perspective.

As Monetary Authority of Singapore (MAS) managing director Ravi Menon had said at the 39th Federal Reserve Bank of New York seminar in Oct 2015, the measures

were "a coordinated approach across the MAS, the Ministry of Finance and the Ministry of National Development to address financial stability and inflation concerns".

After the global financial crisis of 2007, the US Federal Reserve's zero-interest rate policy as well as large central government stimulus packages (especially in the US and China) led to a massive fund to emerging markets.

Singapore's exchange rate-based monetary policy meant interest rates – tied to US Fed Fund rates – remained very low, leading to a large increase in bank credit, especially mortgage and car loans. This raised risks for both inflation and financial stability.

Low interest rates boosted asset collateral values, which provided a larger incentive for both borrowers and lenders to take more risks. Excessive credit in turn raised the risk of asset price bubbles, whose even-

tual burst could damage financial instability.

While Singapore's monetary policy in the form an appreciating exchange rate was able to reduce imported inflation, this was not effective in curbing asset price increases, especially for housing and cars.

Regulations can be more effective than monetary policy in "targeting the cracks" where specific vulnerabilities are concentrated. And when used for macroprudential purposes, the scope and calibration can be larger.

So Singapore took an innovative and integrated approach in targeting different aspects of systemic risk:

- Tighter loan-to-value (LTV) ratios moderated credit-fuelled investor demand;
- Caps on housing loan tenures curtailed the stretching out of loans in order to meet tighter LTV ratios; and
- Higher transaction taxes/stamp duties

constrained demand from investors who did not need to take out loans.

As Mr Menon put it, an LTV ratio of 80 per cent for property loans, applied through the cycles, is a microprudential tool. But when the ratio is tightened to as low as 20 per cent for a third property loan, it became a macroprudential tool.

So what was the outcome of MAS's actions?

Against both inflation and housing prices, the results have been successful. Property prices, after rising over 60 per cent between Q2 2009 and Q3 2013, have since fallen 11 per cent.

But risks remain. In the long run, property prices are still substantially higher than their pre-2010/2011 run-up levels. And although the US Federal Reserve has increased interest rates for the first time since 2006, the increase has been marginal and future

rate increases are expected to be moderate.

While some relaxation of policies may be expected in future, it would be realistic to assume these will be done in a calibrated and gradual manner. The relaxation would also be in line with broader goals and objectives.

But policies on prudent mortgage criteria to prevent borrowers from overextending themselves (such as LTV limits, maximum loan tenures and total debt-servicing ratio) can be expected to remain.

Ditto for tighter rules on the ownership of HDB properties for permanent residents versus citizens.

However, there may be an opportunity for the relaxation of LTV limits for multiple properties as well as additional stamp duties.

■ The author is a banker with Citibank. The views in this article are expressed in his personal capacity.