The Property Bubble and the Banking Crisis: Comments on Honohan/Kelly/Kelleher

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‘Responding to the Crisis’
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Key policy issues

• Boosting transactions in the housing market.

• Restructuring the banking system.

• Easing the credit crunch.

• Helping distressed households.
Typical boom and bust cycle

House prices further to fall
Sweden’s experience

Figure 1
Bank Profitability

- Loan Loss Provision for Commercial Banks, Percent of Average Total Assets
- Profits Before Taxes for Commercial Banks, Percent of Average Total Assets
- Loan Losses for four Large Banks, Percent of GDP
Lending in Japan

Bank loans outstanding

- Wholesale and Retail Trade
- Real Estate
- Construction

Source: Bank of Japan and FRB staff estimates.
Zombies
Accountants v. Economists

- International Financial Reporting Standards
  - Pro-cyclical provisioning

- IAS 39
  - Losses recognised late in credit cycle

- TARP-type solution?
  - Needs to be large scale
  - Avoid creating “warehouses”
Credit crunch?

• Funding problems or credit risks?
  – Loan-deposit ratios

• Problem of overbanking (Hoshi & Kashyap, 2005)
  – Consolidation
  – Concentrate capital injections
• Any scope for government schemes to encourage forbearance?  
  – Externalities

• Maintaining employment and promoting recovery.