

Some Observations on the International Implications of Asset Bubbles

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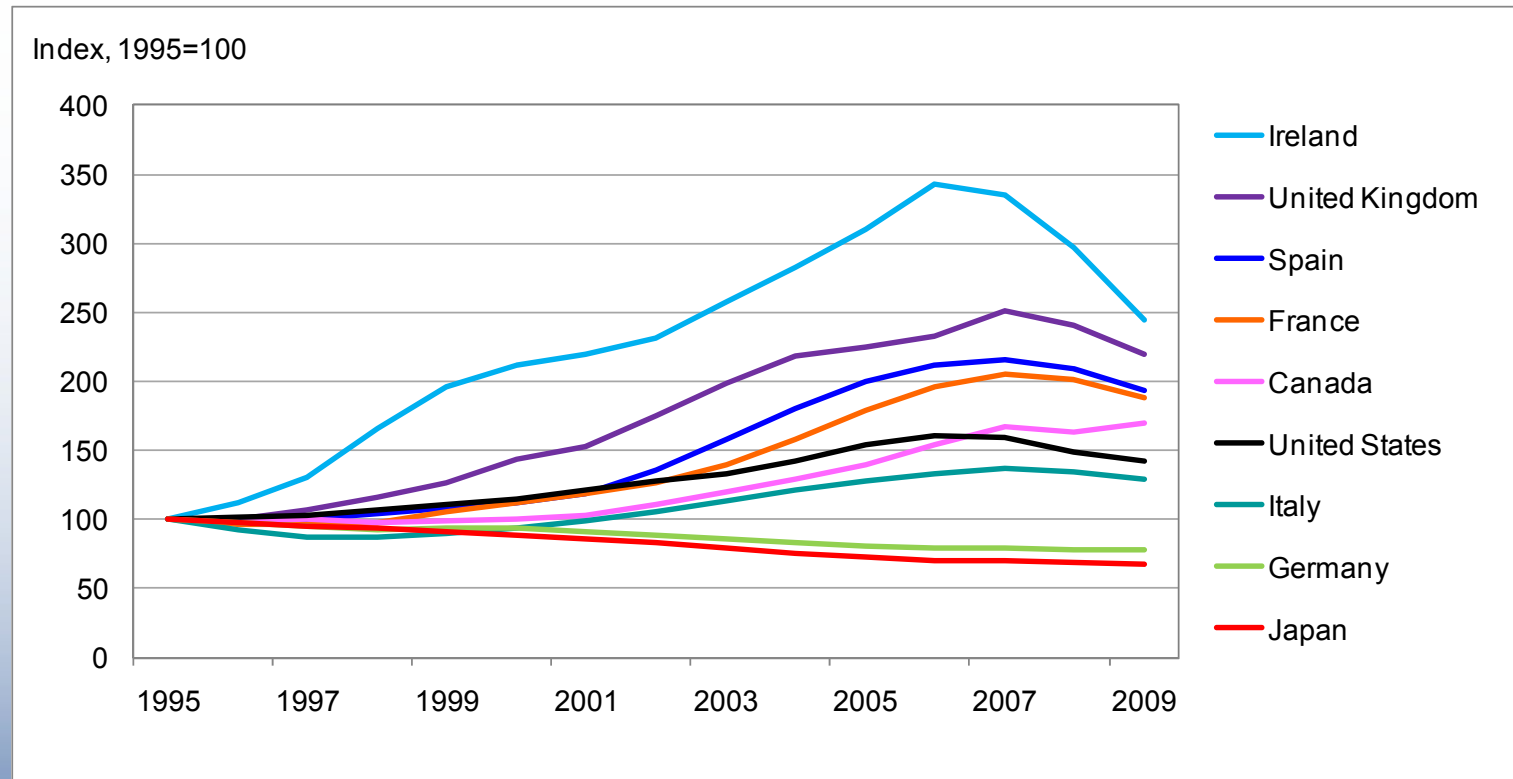
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Figure 1

Real House Price Increases

1995 - 2009



Source: OECD

Housing Prices: International Observations

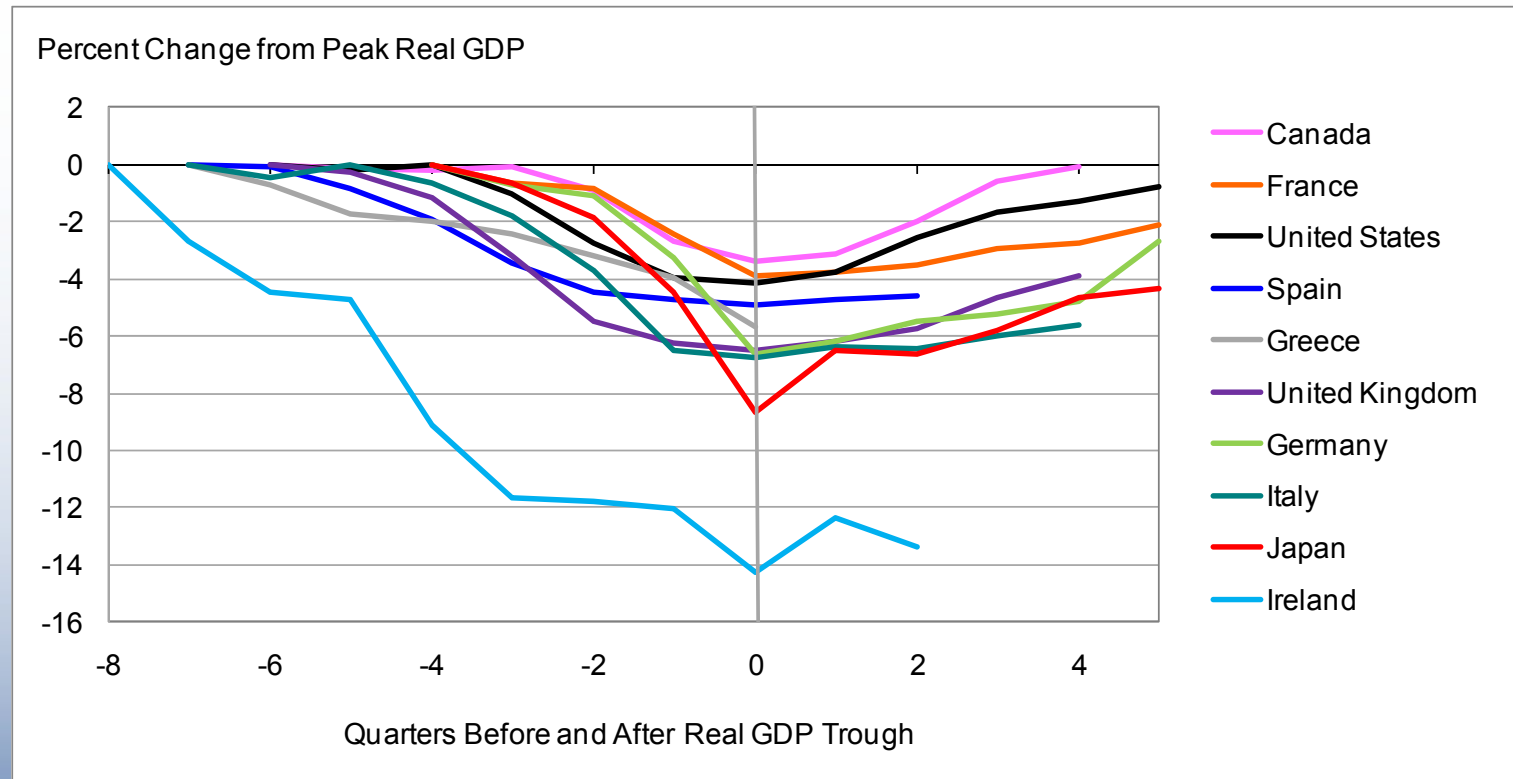
- Several European countries also had rapid appreciation in real estate prices, despite having very different monetary policy from that of the United States
- European countries with the same monetary policy had very different real estate appreciation; for example, Germany versus Ireland and Spain
- Japan, which has been at the zero bound for more than a decade, still has not had appreciation in housing prices

International Implications

- Credit *availability*, rather than the *cost* of credit, may be the primary driver of asset bubbles
- Consider the role of leveraged financial institutions in financing asset bubbles
- Supervisory policy, rather than monetary policy, may be a more important tool for combating asset bubbles

Figure 2

Real GDP Change from Peak in Most Recent Recession



Source: Haver Analytics

International Spillovers

- Countries without real estate asset bubbles have nonetheless been greatly impacted by asset bubbles
- Global financial firms (hedge funds as well as banks) are an important transmission mechanism across national borders
- Supervisory coordination may be the most effective way of addressing cross-border concerns with asset bubbles

Conclusion

- The international dimension to asset bubbles deserves more attention
- Countries *without* asset bubbles should still be concerned over countries that *are* experiencing asset bubbles
- Financial stability monitoring needs to look internationally for potential problems
- International coordination of supervisory policies will be even more important in the future