

# **Markets and Housing Finance**

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## **Summary**

In this paper we focus on one important pillar of a well-functioning housing market, the extent that markets enable the provision of housing finance. While there are many aspects to the housing market, it can be argued that the provision of housing finance is a binding constraint that must be addressed before the market can sustainably provide adequate housing. Absent a well-functioning housing finance system, for many the market-based provision of formal housing will be neither adequate nor affordable.

While housing finance is a vital component of a well-functioning housing system, to date there has not been a systematic analysis of the depth of housing finance across a broad set of countries. In fact, as far as we know, no formal cross-country study of the size of the housing finance market exists. We begin to fill this void by analyzing the determinants of the extent of housing finance in a sample of 62 countries that includes both developed countries and a wide range of emerging economies. Across all countries, controlling for country size, we find that countries with stronger legal rights for borrowers and lenders (through collateral and bankruptcy laws), deeper credit information systems, and a more stable macroeconomic environment have deeper housing finance systems. These same factors also help explain the variation in housing finance across emerging market economies. Across developed countries, which tend to have low macroeconomic volatility and relatively extensive credit information systems, we find that variation in the strength of legal rights helps explain the extent of housing finance.

Our study highlights basic underlying factors that can be addressed by policy and government programs to improve the reach of national housing finance systems. For example, the Philippines lags behind many of its Asian peers in the provision of housing finance, while Malaysia has the preeminent housing finance system in the region. Our regression results indicate that legislation currently under consideration in the Philippine Congress—the Credit Information System Act (which would create a central credit information bureau in a country that currently has very limited consumer credit information) and the Corporate Recovery Act (which would revamp outdated bankruptcy laws)—could potentially lay the groundwork for closing much of the gap in housing finance between the Philippines and Malaysia.