

Lessons from Singapore's Central Provident Fund



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4th Global Conference on Housing Finance in Emerging Markets
World Bank, May 26-27, 2010, Washington DC



Population 5 million

Citizens 3.2 million

Land area 710 sq km

Per capita GNI 2009 US\$37,000

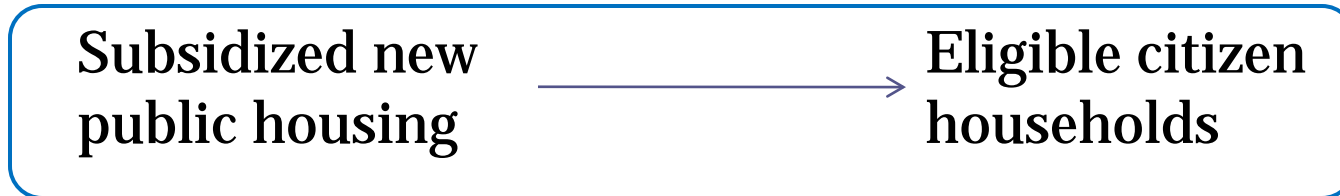
GNS/GNI is 47%

Resident homeownership rate 89%

Housing Stock, 2009	Owner-Occupied Units	Rental Units
Public Sector (HDB) 884,000 units 78%	95%	5%
Private sector 249,000 units 22%	83%	17%

Dominance of HDB in housing

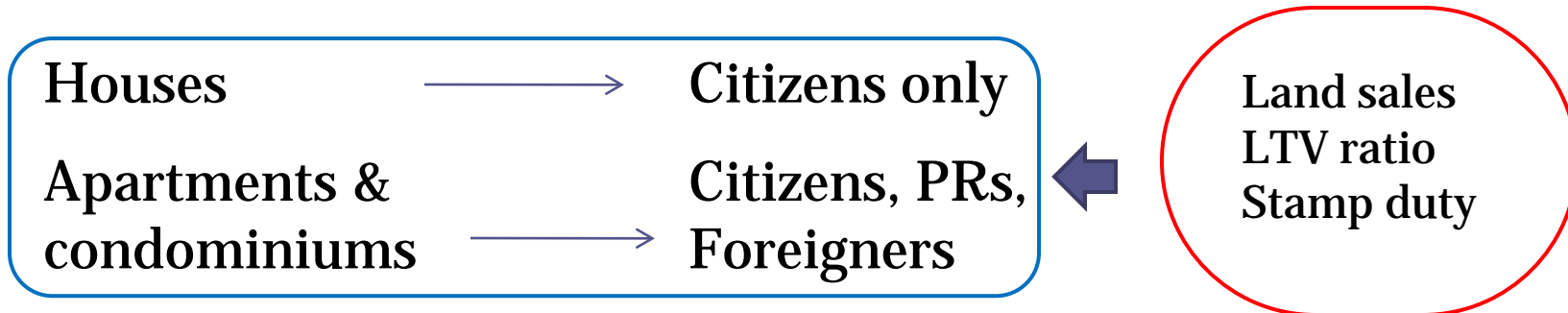
1. HDB direct sales



2. HDB secondary market



3. Private housing market



Singapore's housing market regulations



Housing and Development Board 1960

- HDB Town Planning
- Builds and sells subsidized public housing (99 year leasehold)
- Offers mortgage loans
 - up to 30 years
 - 90% LTV
 - int rate = CPF saving rate + 0.1% = 2.6%



Central Provident Fund 1955

- Collects employees' and employer contributions
- Members can withdraw funds for approved purposes, including housing finance



Commercial banks, finance houses

- Provides market interest rate mortgages to buyers
- Make loans to private sector developers for construction and investments



OCBC Bank

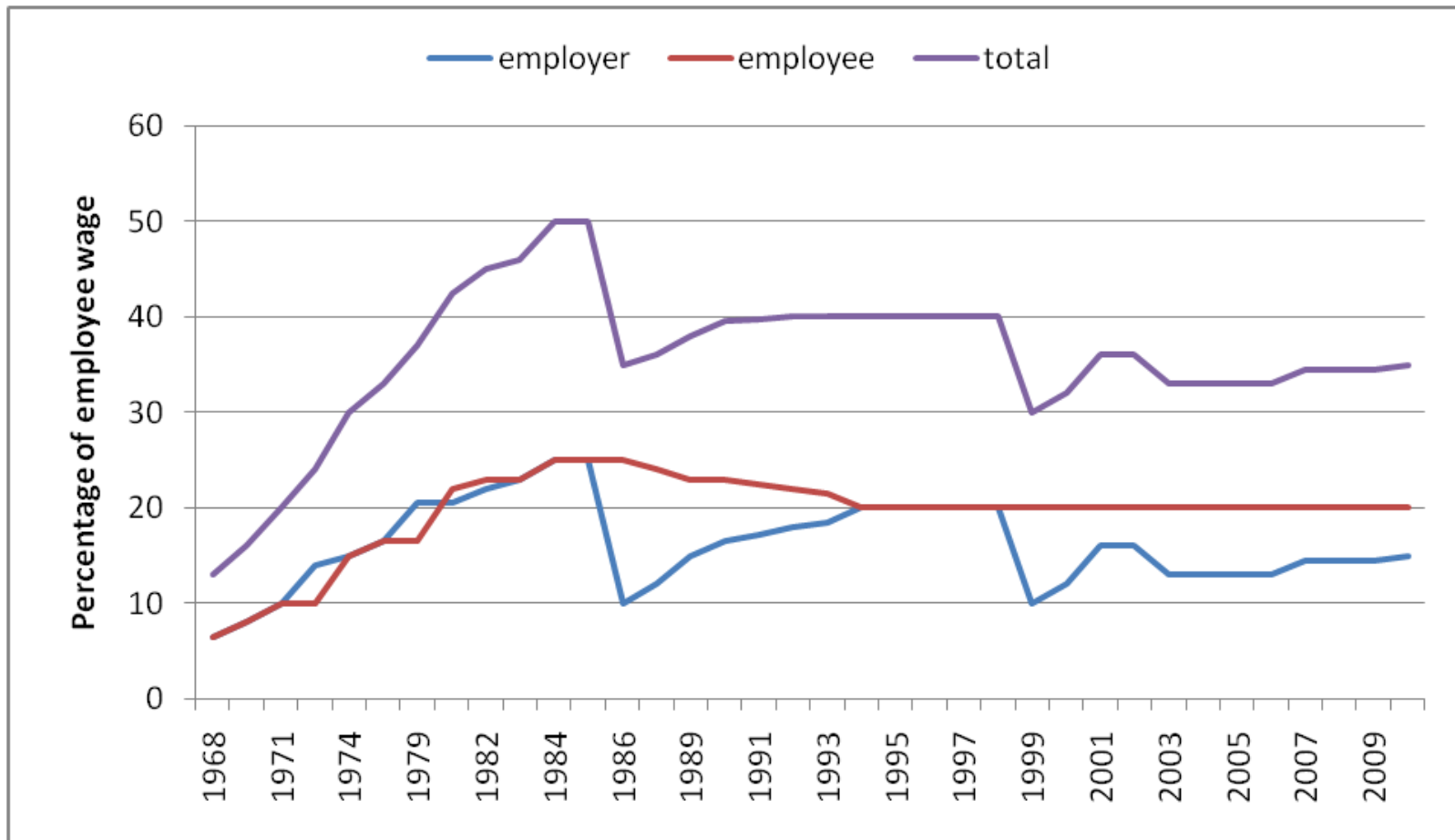


HONG LEONG FINANCE

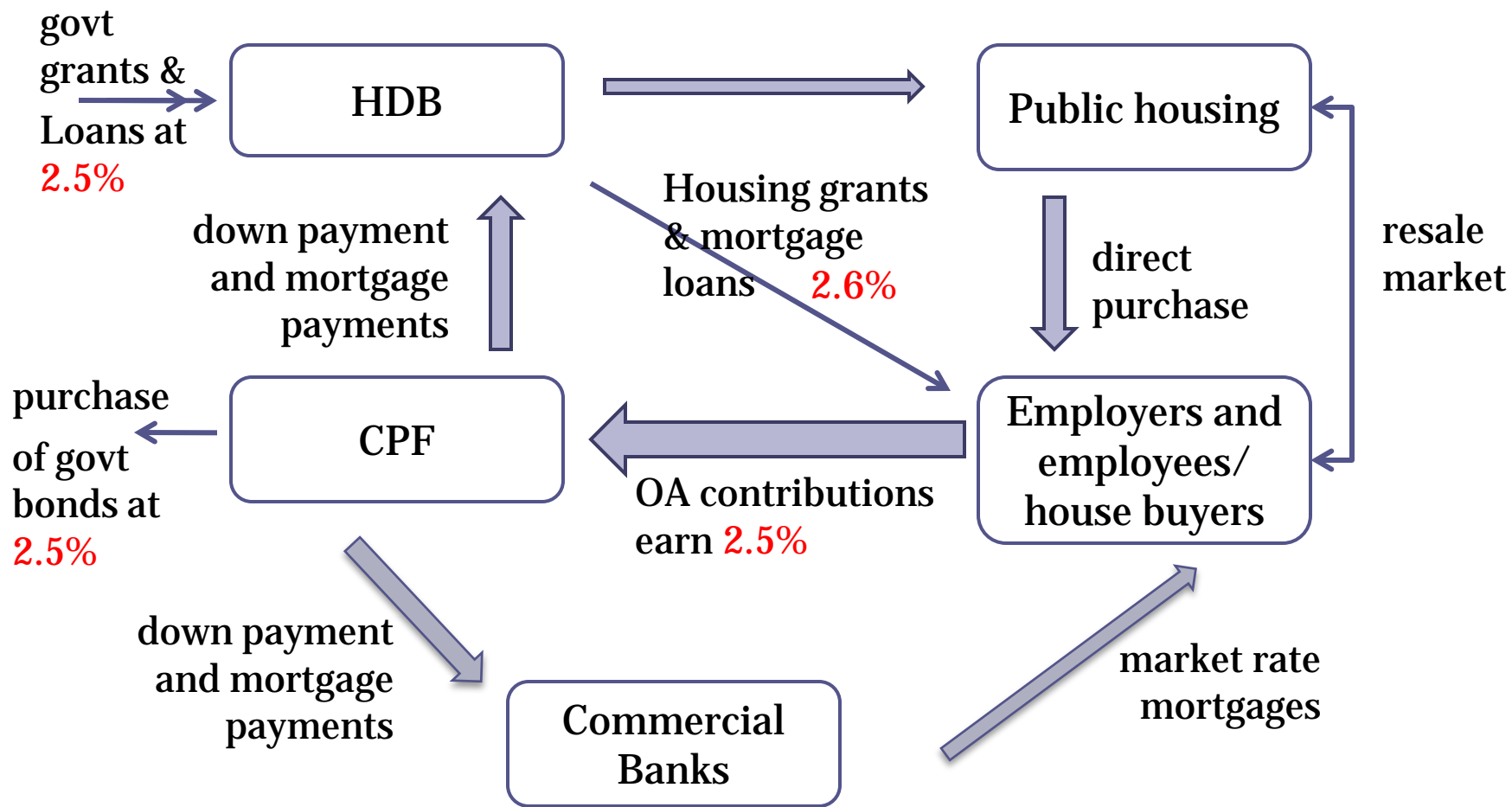
Key institutions in Singapore's housing system

1955	Central Provident Fund set up
1968	CPF savings allowed to finance HDB flat purchase
1981	Fund withdrawal allowed for private housing purchase
1993	CPF savings finance private housing mortgage interest
1994	CPF housing grants for resale HDB purchase
2002	Caps on CPF withdrawals for housing introduced; Currently 120% of valuation

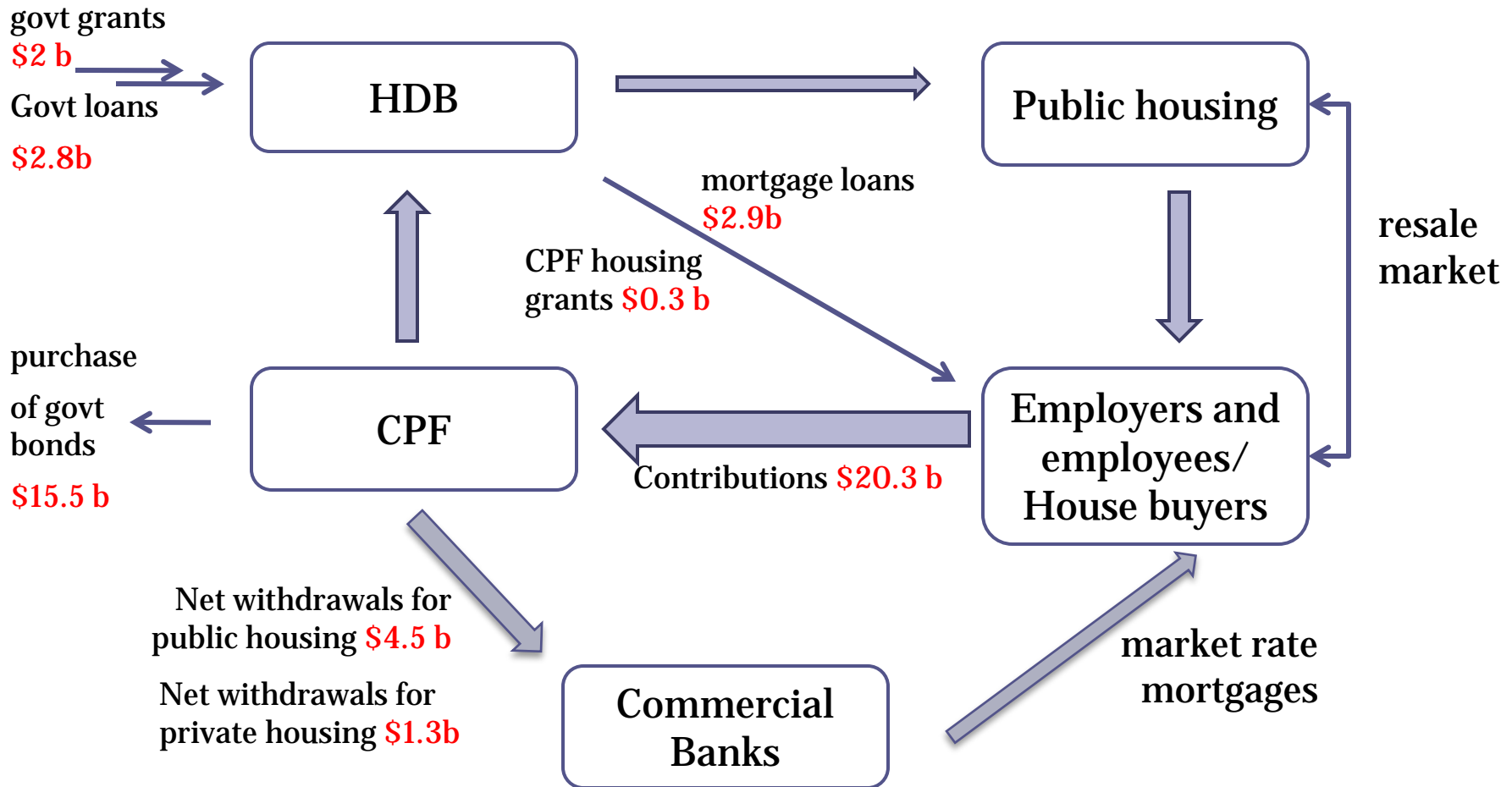
Changes in CPF policy over half a century



Changes in CPF contribution rates



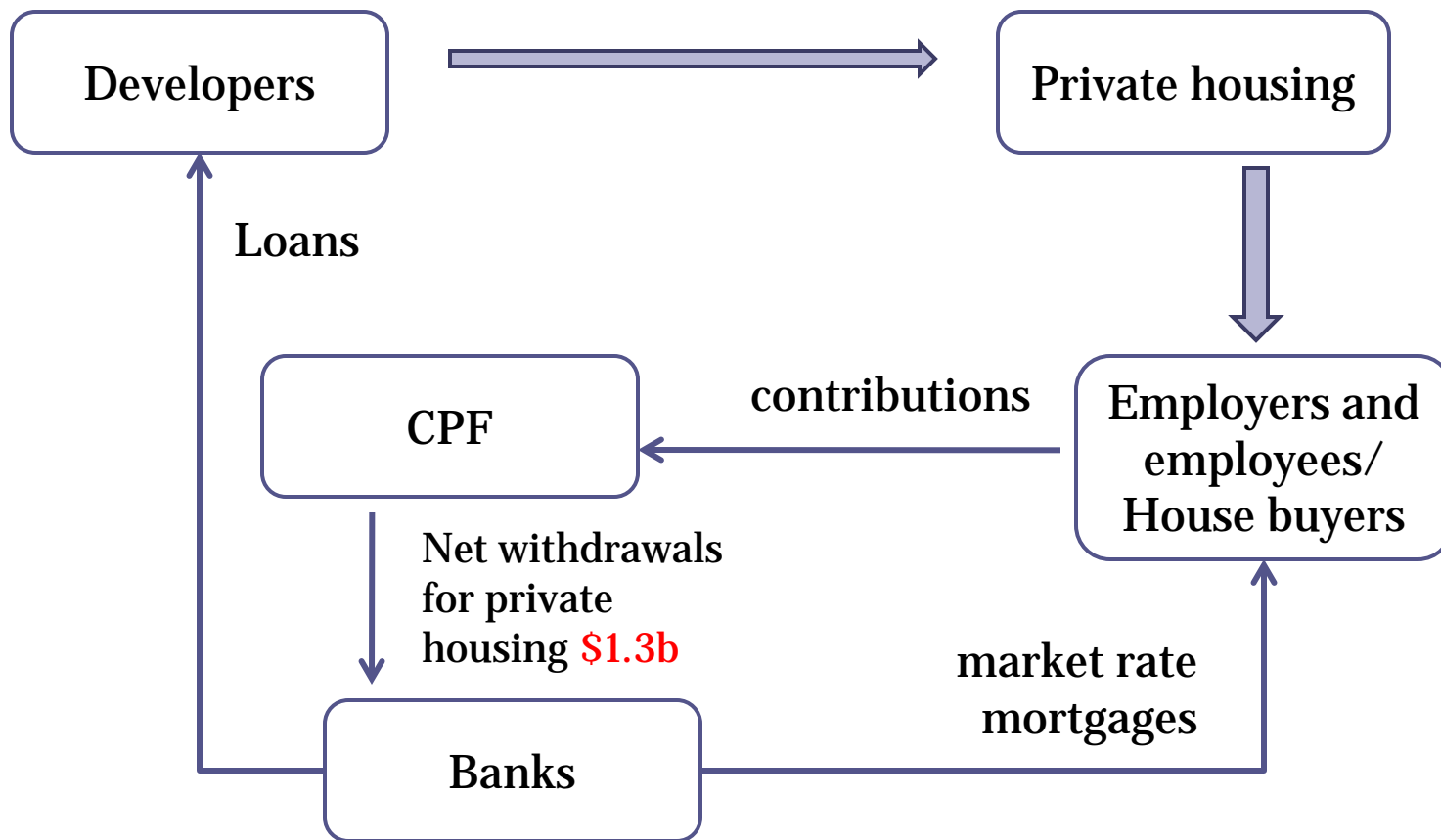
Mobilization of savings: public housing



2009 GDP \$258 billion

CPF members' total account balances \$151 billion

HDB mortgage housing loans outstanding \$47 billion



2008/09

HDB mortgage housing loans outstanding S\$47 b

Banks housing mortgages outstanding S\$91 b

Total housing loans to GDP ratio = 54%

Macroeconomic environment

- High savings and income growth rates
- Low unemployment, inflation and interest rates
- Government budget surpluses
- Long term trend of S\$ appreciation over time

Government support for HDB

- Government provision of financial resources to HDB for development, maintenance and upgrading of estates
- Government loans to HDB for mortgage loan origination
- Land allocation for HDB housing
- Comprehensive town planning

Housing finance

- CPF savings rates pegged to commercial rates with minimum rate of 2.5%
- Government lends to HDB at CPF savings rate
- HDB mortgage loans at CPF rate + 0.1%
- Long term trend of housing price appreciation > > inflation rate

Stability enhancing features

- High savings and home ownership rates
- Mobilized savings for housing and growth of mortgage loans
- Economic growth through housing provision
- Regulations reduced speculative housing demand
- CPF rate and policy as macroeconomic instrument
 - to reduce inflation
 - to reduce wage costs

Positive economic effects of CPF-HDB system

- **Over allocation of resources to housing?**
 - illiquid savings
 - crowded out consumption
 - weak domestic startup sector
 - high housing risk for retirement
 - crowding out of private sector developers
 - crowding out of private sector mortgage lending
- **CPF rate changes directly impacts the housing sector**

Criticisms of aspects of CPF-HDB system

- Social and political context is important
 - Housing provident fund easier to set up
 - HDB difficult to replicate
 - Mandatory savings, state land, large role of public sector in housing provision could easily have led to inefficiency and corruption
- Singapore managed because of competent public sector - competitive public pay, zero tolerance for corruption, and merit based hiring

Is Singapore's CPF-HDB system easily transferable?

1. Creating and enabling markets to work more efficiently
2. Helping hand of government
 - timely real estate market information
 - sustainable housing supply regimes
 - sustainable mortgage institutions
 - improving liquidity of housing
 - providing housing subsidies
3. Retirement savings may be mobilized for housing but housing provident fund does not lend directly for housing
4. Anti-speculation policies to regulate housing demand and prevent asset bubbles
5. Good fund governance necessary to protect the interest of provident fund members

Transferable components of scheme

HDB



Thank you



Private sector condominium



HDB town