

## SUMMARY

CHRISTINE ULLYANA. The Dynamic Relationship of Macroeconomic and Housing Price (agregat & disagregat) with Islamic and Conventional Housing Financing. Supervised by HENY K DARYANTO and IMAM TEGUH SAPTONO.

The subprime crisis that occurred in the United States in 2007/2008 is clear evidence of major role of the housing sector in the business cycle and economic stability. Theoretically, there is direction causality between property prices and bank credit. The availability of bank credit will increase demand for housing and at the same time can increase the price of housing, as a result of lower loan interest rates as a signal on expectations of good economic conditions and liquidity convenience faced by households (Oikarinen 2009). Based on studies in several countries, the property sector has the multiplier-effect which triggers series of other economic sectors will activities, both directly and indirectly.

The attention of Bank Indonesia as the monetary policy regulator on the growth of housing financing or mortgages and property prices is intensified due to subprime crisis. Moreover, with the increasing of housing financing data and residential property price index in the primary market which has been outpacing the growth of GDP since 2013. Bank Indonesia had enforced the regulation of the LTV/FTV to increase the bank's prudential aspects in property ownership lending and collateral based-property consumer credit since June 2012 and continue to be revised in accordance with the conditions of economic development and growth of the national credit.

Despite conventional banking and Islamic banking housing financing are parts of the aggregate national banking credit, the response shown in facing the macroeconomic changes and property prices can be estimated different. It is because the tenor of its housing financing is usually longer than other financing, also due to sufficient collateral. Due to the differences of system banking operational, the response of Islamic banking housing financing and its NPF is estimated different from the response of the conventional banking housing financing and its NPL. It is because Islamic banking has a regulation that the funds management by and granted to the debtor should be based on clear goods (materiality), while in the conventional banks have no such regulation.

This study therefore aims to; 1) Analyze the causality between the variables of macroeconomic changes and aggregate and disaggregate residential property price and the housing financing of conventional banking and Islamic banking, including their NPF / NPL, 2) Analyze the response of the housing financing of conventional banking and Islamic banking and their NPF / NPL in facing macroeconomic changes and aggregate property prices, 3) Analyze the response of the housing financing of conventional banking and Islamic banking and their NPF / NPL in facing macroeconomic changes and disaggregate property prices 4) Formulate alternative managerial implications for policy maker and both types of banks in responding to macroeconomic changes.

This study applied quantitative methods with econometric approach and Vector Error Correction Models. Based on disaggregate data, conventional banking mortgage in all types of house (large, medium, small) is influenced by

GDP and is not sensitive to interest rates and property prices changes. This indicates its debtor behavior is oriented to investment with speculation motive. It is in accordance with the classical economic theory, that households are likely to increase consumption and investment in line with economic growth. By investing in residential property assets, households have expected to obtain capital gains on house prices in the future. Similarly the middle segment of Islamic banking which also gives the same behavior and even inclines to show wealth effect symptoms, that the increasing of house prices led to homeowners feel wealthier so that it will induce households to increase levels of consumption and investment which resulted to an increase in demand for credit. On the other hand, the segment of small and large Sharia housing provide different behaviors that disposed to make the house for consumption prominence (occupied). When the household income increases, households tend to pay off the outstanding financing owned.

The implications that can be formulated is the intervention policy in stimulate or dampening housing financing should be more focused to the stabilization of house prices, GDP growth, monetary policy and the right target without hampering economic growth. Based on disaggregate data analysis, Bank Indonesia needs to be conservative on the growth of conventional mortgage in all types whether it is large, medium or small, especially second and subsequent house ownership. It is also required in-depth review in regards to ease the implementation of FTV for Islamic banking considering the behavioral responses which is given by Islamic banking financing for large house segment tend to opposite the wealth effect theory. By leniency or easing of the FTV policy in this segment, growth of Islamic banking assets is expectedly boosted considering the composition of Islamic mortgage banking is only 20 percent of the total national mortgage financing. In addition, it may consider implementing fiscal policy to dampen the growth of financing and house price increasing since the reference interest rate is ineffective in reducing the rate of growth of mortgage financing.

The strategies that can be applied by both type of banks are : to maintain the quality of growth mortgage loan by establishing loan review process and monitoring process in comply with credit / financing policy; applying the funding limit exposure to every segment of the house types; considering the growth factors of house prices, interest rates and GDP in formulating strategy.

Keywords: housing financing, macroeconomic, residential property prices, vecm.