Covid-19, Housing Prices and Macropudrential Policies

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Introduction

- The COVID-19 crisis has been unprecedented in many angles => Unlike the 2008 GFC, this crisis was caused by lockdown measures
- Lockdown effects have unevenly impacted consumers and sectors
- A shift in demand plus some housing policies have also been translated into higher housing prices

Research Questions

- How did corona-shocks affect both the macroeconomy and housing markets?
- How did housing markets and housing policies, i.e. LTV affect other sectors?
- What would be the optimal monetary macroprudential fiscal combination of policies to increase production in the most affected sectors without compromising financial stability?

Model Overview

- This paper builds a multi-sector DSGE model, which features a housing market
- Sectors differ in their degree of price flexibility
- Consumers are divided into savers and borrowers, who face collateral constraints
- Macropudrential policies are represented through changes in LTV

Negative Supply Shock

- A negative supply shock hits more strongly the sticky-price sector
  => There is a redistribution towards the flexible-price sector

Monetary Policy Shock

- A monetary policy easing reactivates the economy and increases housing prices
  => However, it has an even effect across sectors

LTV Shock

- A negative shock to the LTV boosts credit and housing prices and increases output
  => However, it has an even effect across sectors

Policy Implications

- Macropudrential policy can complement the ease of monetary policy to shape the recovery (especially in the context of the ZLB)
- Macropudrential policy should be taken with caution to not compromise financial stability
- However, neither policy has sectoral effects
  => The most affected sector should be targeted through sectoral fiscal policy

Conclusions

- This paper investigates the sectoral redistribution of the COVID-19 crisis
- We use a multisectoral DSGE model with financial frictions and housing
- Monetary and macroprudential policies combined help the recovery but show symmetric effects across sectors
  => Fiscal policies should be used target the most affected sector

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