Covid-19, Housing Prices and Macroprudential Policies

Isabella Blengini
EHL

Margarita Rubio
University of Nottingham

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**

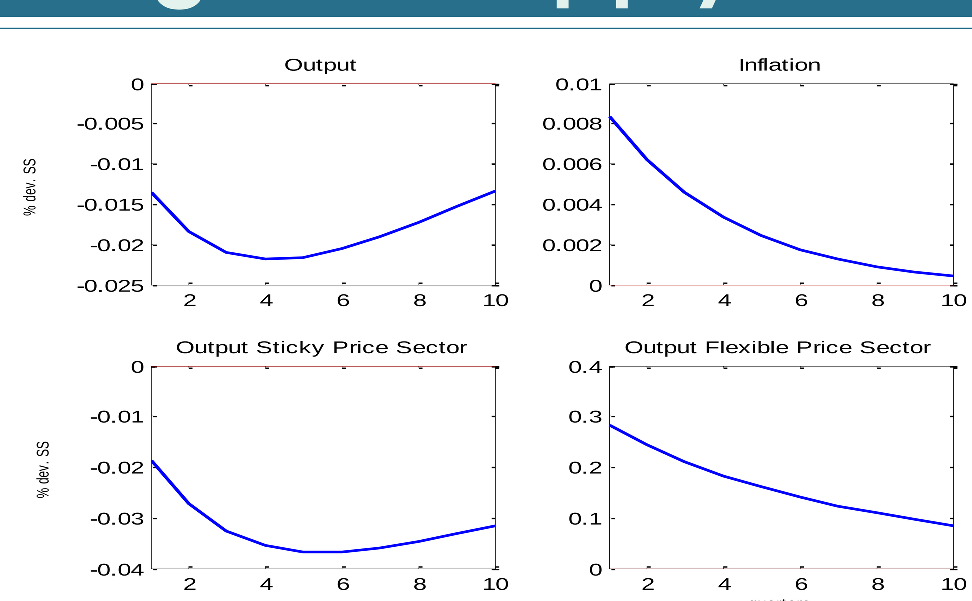
Research Questions

- 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

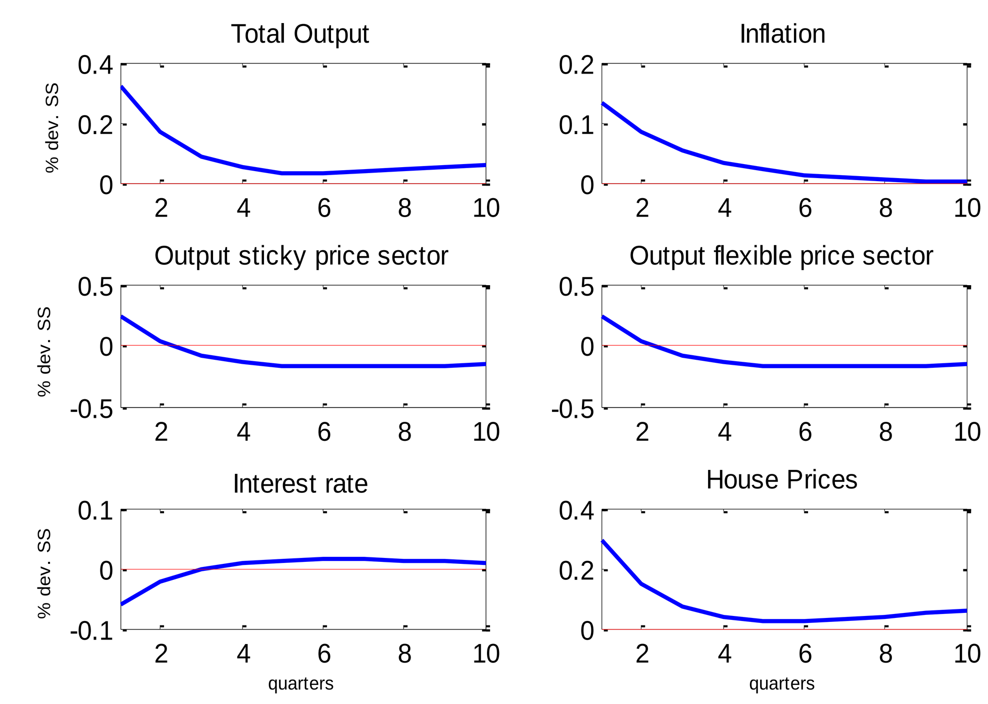
- This paper builds a **multi-sector DSGE** model, which features a **housing market**
- **Sectors differ in their degree of price flexibility**
- Consumers are divided into savers and borrowers, who face collateral constraints
- **Macroprudential policies** are represented through changes in LTV

Negative Supply Shock



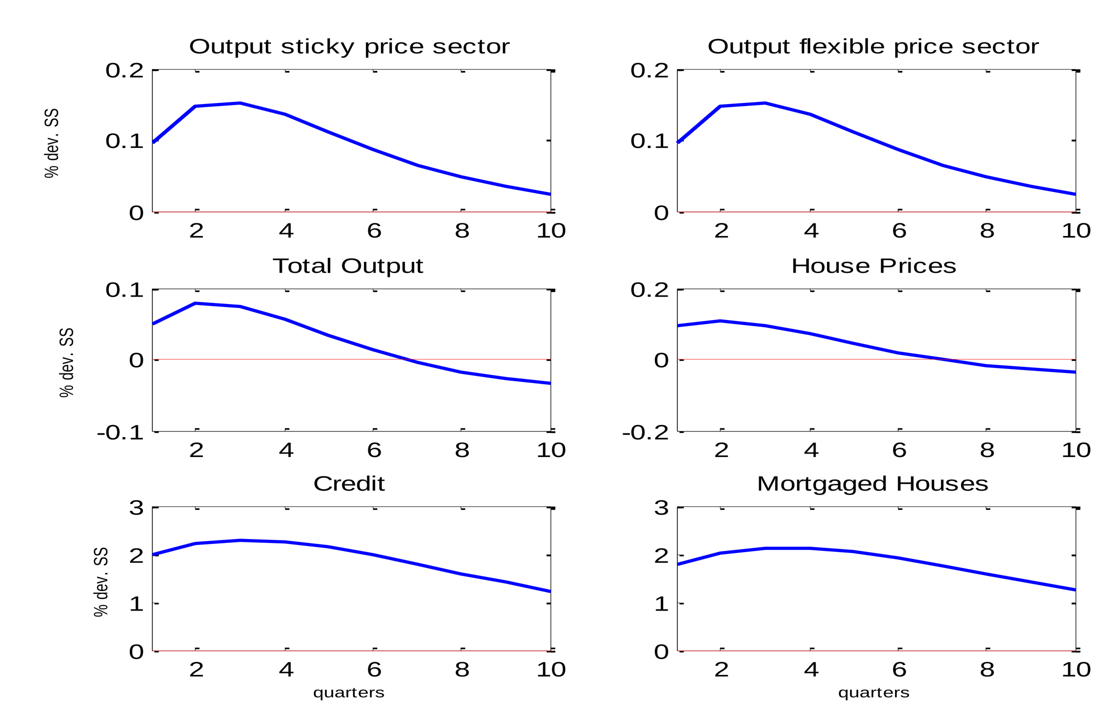
- A negative supply shock hits more strongly the sticky-price sector
  - There is a **redistribution towards the flexible-price sector**

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

- **Macroprudential policy can complement the ease of monetary policy** to shape the recovery (especially in the context of the ZLB)
- **Macroprudential 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

Isabella.BLENGINI@ehl.ch

margarita.rubio@nottingham.ac.uk