HOUSING FINANCE AND MONETARY POLICY

Alessandro Calza
European Central Bank

Tommaso Monacelli
Università Bocconi

Livio Stracca
European Central Bank

Abstract
We document three facts concerning how the structure of housing finance affects the monetary transmission mechanism: first, the characteristics of residential mortgage markets differ markedly across industrialized countries; second, the impact of monetary policy shocks to residential investment and house prices is significantly stronger in those countries with larger flexibility/development of mortgage markets; third, the transmission to consumption is stronger only in those countries where mortgage equity release is common and mortgage contracts are predominantly of the variable-rate type. We then build a two-sector DSGE model with financial constraints to rationalize those facts. (JEL: E21, E44, E52)