

Housing Channels of Monetary Policy Transmission in European Industrial and Transition Countries

Stanimira Milcheva
Universität Regensburg

We provide empirical evidence of the role of the housing market in monetary policy transmission for a broad sample of European industrialized countries, Central and Eastern European (CEE) countries, and the USA. We identify the housing channels by counterfactual simulations of consumption and residential investment impulse responses. The counterfactual is a VAR in which the effect of the housing market is turned off. We find evidence of significant housing channels in countries with well developed mortgage markets. Securitization and mortgage equity withdrawal in these countries may enhance the role of housing in the monetary policy transmission mechanism. However, the role of housing as a transmission channel in countries with high mortgage market flexibility may be offset by other factors, as we cannot find any interest rate induced housing effects for consumption and investment in the U.K. and Norway.