People's QE: Monetary policy in eurozone and heterogeneous effect on housing costs

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- Methodology
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Introduction

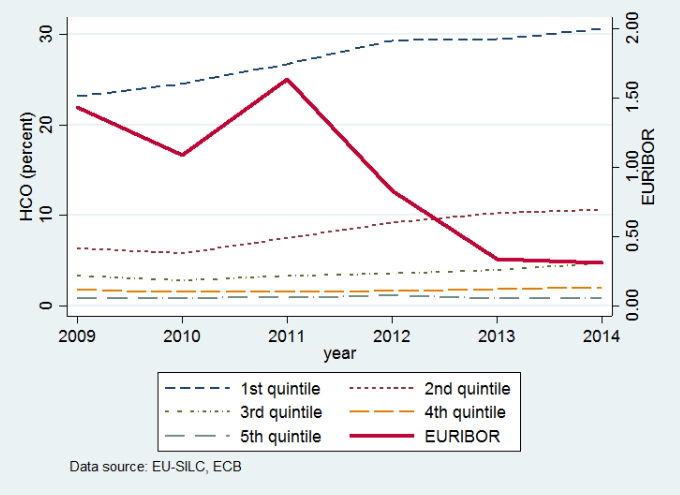
- calls for the "people's QE" from politics and academia in UK and eurozone (Labour, Blyth and Lonergan, Sandbu etc.)
- was it not people's QE?
- QE increased the asset prices, complex effect on overall economy
- low rates reducing interest payments... under certain conditions

Introduction

Housing most tangible and most present utility in everyday life in Europe, very political

- mortgage debt 70% of total household liabilities (2009)
- real estate holdings 43% household wealth
- loans for house purchase 32% loans to households (2007)

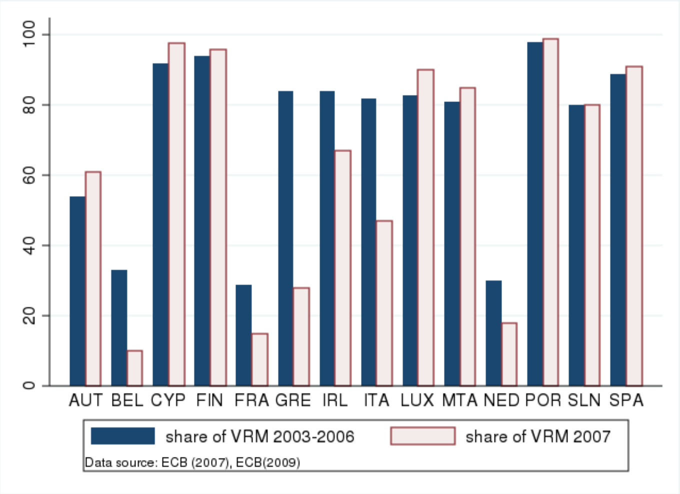
Housing cost overburden rate



Heterogeneity in income effect

- share of adjustable-rate mortgages (ARM)
- fixed-rate mortgages: failure to refinance
- (borrowing constraint, insufficient collateral, financial illiteracy...)

Adjustable-rate mortgages



Heterogeneity in wealth effect

- increase in house prices: wealth transfer from net lenders to net buyers of houses (Blot et al. 2015)
- this transfer, reduction in inequality, depends on the ability to issue debt and the change of interest burden for buyers (inability to refinance, share of ARM).

Heterogeneity

Thus QE theoretically exerted a positive net income effect on

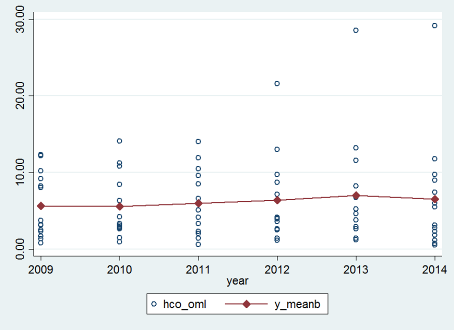
- adjustable-rate mortgage holders
- fixed-rate mortgage holders who were able to refinance (lower house price decline, less adversely effected by crisis)
- new borrowers where sufficient interest-rate pass-through occured

Importance for QE implications

- Heterogeneity in U.S. monetary policy effect: Hurst et al. (2015) region-dependent refinancing
- ECB Executive Board member Benoît Cœuré emphasized that inequality is relevant for central banks, "as monetary policy may have an impact on inequalities, and [...] stability is conducive to equity"
- MPC (Auclert 2015) Keys and Pope (2014) Di Maggio (2014)

Methodology

- the effect of QE on inequality will be approximated by identifying its impact on net interest income
- Hurst et al. (2015) changes in mortgage refinancing activity
- Babić (2016): change in housig cost (over)burden rate
- panel data, 14 countries, random effects GLS regression
- ARM, country-specific, allows testing for heterogeneous impact across countries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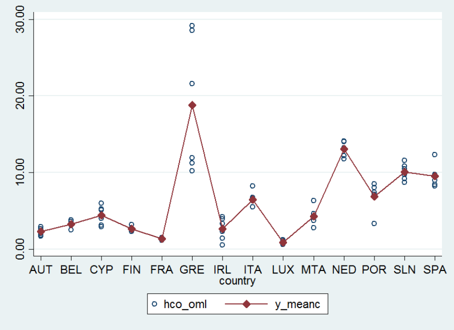
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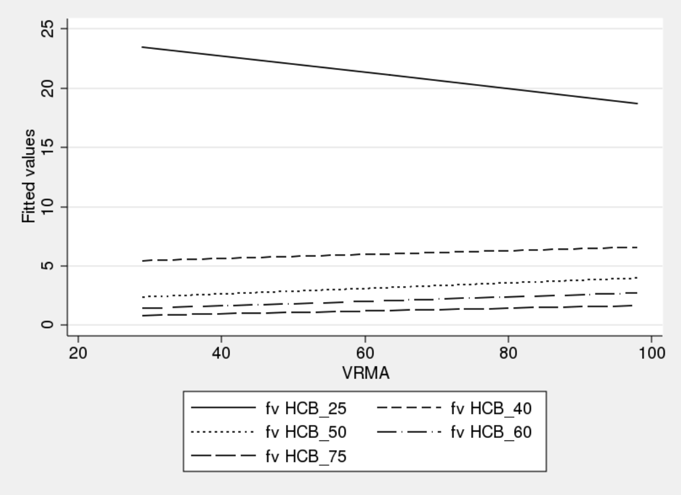
Dependent variables

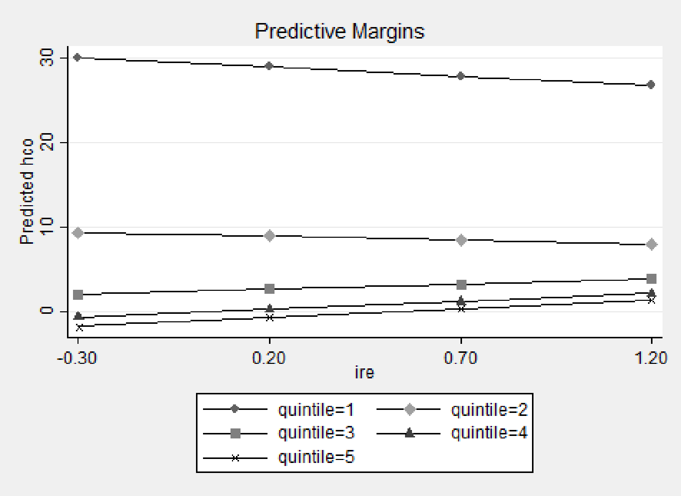
- HCB rate for home owners with an outstanding mortgage
- HCO rate for different income quintiles
- Share of home owners with oustanding mortgage

Results



- ARM significant, negative, albeit small

Results



- HCO and income quintiles

Results

- house prices and unemployment insignificant: social security nets, small collateralized lending, long process of collateral enforcement (7y in Italy)

Results

- Home ownership: surprisingly, ARM significant and negative
- one explanation: profitability of banks most adversely hit there, want to prevent maturity mismatch and borrowers lock in low rates

Conclusion

- VRM as a proxy for interest rate pass-through: weaker and less significant for households with higher burden
- shortcoming: unavailable individual survey data; HCB not perfect measure of mortgage payments;

Results

	(1) HCB_{25}	(2) HCB_{40}	(3) HCB_{50}	(4) HCB_{60}	(5) HCB_{75}
$VRMA$	-.198***	-.0394*	-.0550*	-.051**	-.00
	(.0642)	(.0206)	(.0326)	(.0232)	(.005)
HPC	-.009	-.007	-.017	-.009	-.015
	(.097)	(.044)	(.027)	(.02)	(.01)
UNE	.00	.00	.00	.00	.00
	(.034)	(.01)	(.00)	(.00)	(.00)
IRE	3.72	.82	.19	-.27	.07
	(3.07)	(.98)	(.38)	(.27)	(.23)
GAP	-2.64***	-1.19***	-.24*	-.18*	-.36***
	(.698)	(.22)	(.14)	(.09)	(.52)
Constant	23.32	4.77	1.548	.649	.467
	(16.22)	(3.95)	(1.379)	(.697)	(.343)
Observations	84	84	84	84	84
Countries	14	14	14	14	14

Table 5: Regression results – regional variation in the HCB