

Cross-border bank flows, funding liquidity and house prices

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¹The views expressed here are solely those of the author and should not be taken to represent those of the Bank of England.

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▶ Main questions

- What is the impact of global liquidity (proxied by funding liquidity) on house prices?
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▶ How do they do that?

- Cross-country (static) regression
- Small open economy panel VAR

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 - Focus on one component of GL: funding conditions
 - Novel proxy: repos
 - Show that it matters (not only US)

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- ▶ **Discussion** Some questions and (hopefully useful) suggestions
 - Global liquidity & Funding conditions
 - VAR estimation & Channels of transmission
 - Heterogeneity

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- ▶ Sticking to the BIS: *“The term global liquidity is used by the BIS to mean the ease of financing in global financial markets. Credit is among the key indicators of global liquidity”*
- ▶ But (observed) credit is an equilibrium variable
- ▶ GL is a vector of “supply shifters” (Cerutti et al, 2014)
 1. Uncertainty, leverage and risk aversion
 2. Funding conditions for banks
 3. Money aggregates & monetary policy
 4. Financial regulation and innovation
- ▶ **Suggestion** Make clear that the paper is about one component of global liquidity, ie funding conditions for banks

Panel VAR

- ▶ Estimate the following baseline model

$$X_{i,m} = [Fund_t^s, Gdp_{it}, r_{it}, Price_{it}]$$

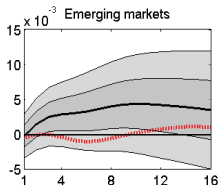
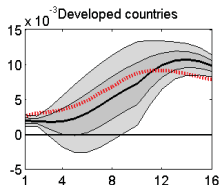
- ▶ Compute mean group estimates for different groups
 - Developed economies, emerging markets (Europe, Asia, and Americas)
- ▶ Very little cross-sectional observations (low N), eg only 4 countries in emerging Americas
- ▶ **Question** Does it matter for the reliability of the mean group estimates?

Channels of transmission

- ▶ Estimate the “alternative” models

$$X = [Fund_t^s, Bank_{it}/Index_{it}, Gdp_{it}, r_{it}, Price_{it}]$$

- ▶ Compute mean group estimates for $Bank_{it}/Index_{it}$ and compare them with baseline to quantify the role of bank/financial channel



- ▶ **Question** Why is the comparison informative about the channels of transmission?
- ▶ **Question** How do you assess statistical significance of the difference between the IRFs?

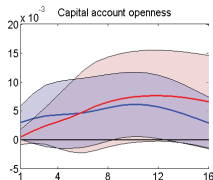
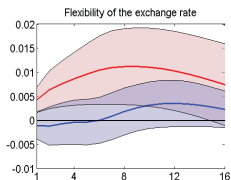
Heterogeneous spillovers of funding shocks

- ▶ IRFs show a high degree of heterogeneity
- ▶ Authors conjecture this may be due to country-specific characteristics
 - Strength of capital regulation, bank supervision, institution quality, FX flexibility, capital openness, and controls on real estate investments.

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 - Strength of capital regulation, bank supervision, institution quality, FX flexibility, capital openness, and controls on real estate investments.
- ▶ Proceed as follows
 1. Sort countries according to their characteristics
 2. Split them into two groups
 3. Report mean group estimates for each group

Heterogeneous spillovers of funding shocks (cont'd)



- ▶ **Question** Country characteristics are (likely) correlated. How to partial out the factor that really matters?
- ▶ Policy implications may differ widely depending on what characteristic matters

▶ **Suggestion** Follow the alternative methodology of Cesa-Bianchi, Ferrero, Rebucci (2016)

1. Take a statistic of each country's IRF (eg, max, impact, etc)
2. Stack them in a vector
3. Regress them on a set of country-specific characteristics

Summing up

- ▶ Nice contribution
 - New proxy for GL (repos)
 - All reserve currency economies matter

- ▶ More work needed
 - Understanding heterogeneity
 - Identifying channels of transmission

- ▶ Looking forward to seeing next versions!



Cerutti, E.& Claessens, S. & Ratnovski, L. 2014. "Global Liquidity and Drivers of Cross-Border Bank Flows," CEPR Discussion Papers 10314, C.E.P.R. Discussion Papers.



Cesa-Bianchi, A. & Ferrero, A. & Rebucci, A. 2016. "Global Liquidity, Leverage, House Prices and Exchange Rates," unpublished manuscript