

Cross-border bank flows, global liquidity and House prices

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Abstract

The paper investigates the impact of global liquidity, proxied by funding liquidity, on house prices around the world. Focusing on the repo markets in US, Europe, UK and Japan, we document that changes in liquidity are related to cross-border bank flows and affect house prices. Highlighting the importance of looking beyond the US, we find that the liquidity effect depends on where liquidity has originated. Moreover, there is evidence of important banking and financial channels for liquidity shocks to house prices, especially in emerging markets. The exposure of house prices to liquidity shocks may be contained by monetary policy and certain country characteristics, such as bank regulation and real estate investment restrictions for non-residents.