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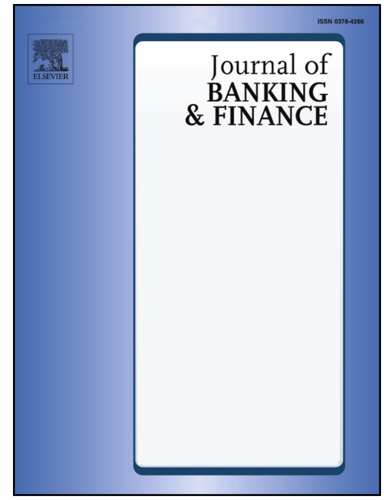

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Bank Integration and Co-movements across Housing Markets[◊]

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Abstract

This paper investigates whether bank integration measured by cross-border bank flows can capture the co-movements across housing markets in developed countries by using a spatial dynamic panel model. The transmission can occur through a global banking channel in which global banks intermediate wholesale funding to local banks. Changes in financial conditions are passed across borders through the banks' balance-sheet exposure to credit, currency, maturity, and funding risks resulting in house price spillovers. While controlling for country-level and global factors, we find significant co-movement across housing markets of countries with proportionally high bank integration. Bank integration can better capture house price co-movements than other measures of economic integration. Once we account for bank exposure, other spatial linkages traditionally used to account for return co-movements across region – such as trade, foreign direct investment, portfolio investment, geographic proximity, etc. – become insignificant. Moreover, we find that the co-movement across housing markets decreases for countries with less developed mortgage markets characterized by fixed mortgage rate contracts, low limits of loan-to-value ratios and no mortgage equity withdrawal.

JEL Classifications: C23, G15, F36, R3

Keywords: House prices, Bank capital flows, Bank integration, Dynamic spatial panel model, Global banking channel, Mortgage market development

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