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Abstract

We investigate the negative correlation between housing markets and the current account in a monetary union, using the Spanish economy as an illustrative example. By employing robust sign restrictions, which we derive from a DSGE model for a currency union, we analyze the effects of Spanish pull and Eurozone push factors in a mixed-frequency VAR framework. Savings glut, risk premium, and housing bubble shocks are capable of generating the negative co-movement of housing markets and the current account in the data. In contrast—and counterfactual to the housing boom—financial easing shocks in Spain predict a decline in both residential investment and house prices.

Keywords: Current account, housing markets, monetary union.

JEL codes: E32, F32, F45.

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