Is there a role for house prices in the unconventional monetary policy transmission mechanism in Japan?

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Abstract

The effect of unconventional monetary policy on real economic activities has been a live topic that attracts considerable attention among policymakers and academic researchers in recent years. However, whether there is a place for house prices in this monetary policy transmission still remains as a question which deserves further investigation. This paper examines the role of house prices in the unconventional monetary policy transmission mechanism of Japan by adopting a structural vector autoregression approach with time-varying parameters (TVP-SVAR) in a small open economy framework. The empirical results show that The expansionary unconventional monetary policy shock had positive effects on real GDP, inflation, and real house prices while it had a negative effect on the real effective exchange rate. However, the size of such effects varies in different monetary policy regimes. The strongest effects on the above variables are observed during the QQE period. Moreover, a positive shock of house prices has a positive effect on real output, of which the strongest effects are observed during QQE and QE periods. Combining this result with the above estimated effect of the monetary policy shock on the house prices, the accelerator function of house prices in an unconventional monetary policy transmission on real output is further enhanced. On the other hand, the negative effects of house prices on inflation may create some puzzles in monetary policy transmission and policy decision making.

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