

Credit expansion and boom-bust cycle of housing prices

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Abstract

This paper investigates the effects of an increase in the household debt to GDP ratio on the subsequent housing prices in the medium run for an unbalanced panel of 22 OECD countries over the past three decades from 1980 to 2017. The main findings are the followings. First, the household credit to GDP ratio leads to the appreciation in housing prices in the short run. Second, the short-run positive effects tend to diminish gradually. Third, in the medium-run perspective, the current increase in the household credit to GDP ratio predicts the subsequent depreciation of housing prices. Looking at the effects of the shock on the 5 years ahead, the negative coefficients are robust to several specifications, including the country-specific controls, the time fixed effect, and the time trend.

Keywords: Household Credit, Housing Prices, Local Projection

JEL classification: G12, G21

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