Discussion of “Unintended Consequences of QE: Real Estate Prices and Financial Stability"

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The analysis and conclusions expressed are those of the author and should not be interpreted as those of the Bank of Italy or of the Eurosystem

Introduction - This Paper

What is the effect of central bank corporate debt purchases in an area where the banking sector is not constrained?

Data on German banks around the launch of the CSPP (2012-2019, policy enacted in 2016)

CSPP: Corporate Sector Purchase Program

- ECB buys investment grade euro denominated corporate bonds issued by NFCs headquartered in Euro Area
- Goal: "further strengthening the pass-through of the Eurosystem's asset purchases to the financing conditions of the real economy", "provide further monetary policy accommodation and contribute to a return of inflation rates to levels below, but close to, 2% in the medium term"

Look at credit reallocation across sectors, with special focus on real estate and look at impact on residential house prices.

Introduction - Main Findings

Introduction - Key messages

The CSPP in a country with no slack in credit markets:

- induced reallocation of credit towards real estate asset managers
- they used this extra credit to purchase houses, fueling an increase in house prices and rent to income ratio
- threats to financial stability coming from house prices "overvaluation" and increased concentration of banks portfolios
- banks did not benefited in terms of higher profits

Overall: "Our findings show that in economies that do not suffer from credit supply frictions, central bank policies that further stimulate loan provision come with substantial adverse effects."

Comments

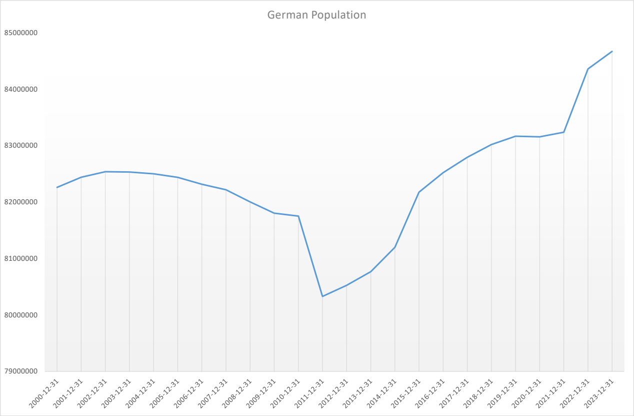
- Very nice paper on important topic
- Paper well executed, rich set of very interesting results
- Strong policy implications

My comments focus on 3 areas

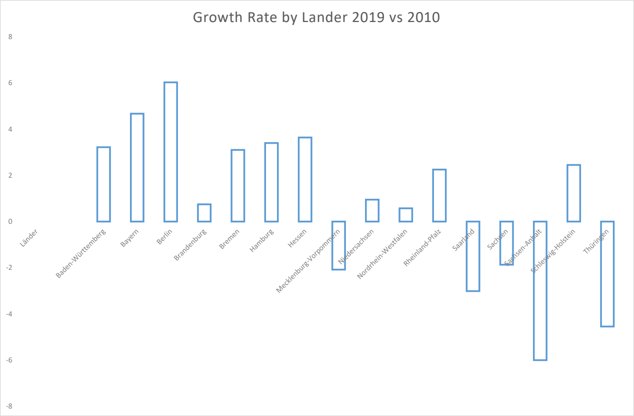
1. Better understand the channel and the effects
2. Some reasoning on monetary policies in large areas with heterogeneous regions
3. Policy implications (spoiler: other policies matter, too!)

Comments I - The channel

Potential confounder for effect on house prices?



Comments I - The channel



Comments I - The channel

- At the very minimum, control for population growth. But it looks like that demand for housing was substantially increasing in Germany in the sample period. Immigration played a role, effects on house prices non-obvious, still....
- Why only residential house prices? How about commercial real estate? Controlling for demand complex again, but possibly important part of the story
- Lending directly to households for mortgages? This may be part of the story: CSPP exposed banks could have lent to both RE companies and households.
- Size of the effects: 7.3bln -> 3.5% of the total transactions in 2016-2019, 5.1% higher price growth due to CSPP (almost a fifth of the total increase). Too big for just supply?

Comments II - The channel

Who are the real estate asset managers?

Among the largest, there are Deka Immobilien and Commerz Real who are owned/controlled by banks.

Is this part of the story? Are some of these loans basically going to companies controlled by banks? If possible,control for this.

More institutional details, also on how concentrated the market for real estate companies is. A few large players?

Relevant also because of the role of internal capital markets of RE managers (geographical analysis as in eq. 2 complicated, do you use the county of the HQ?).

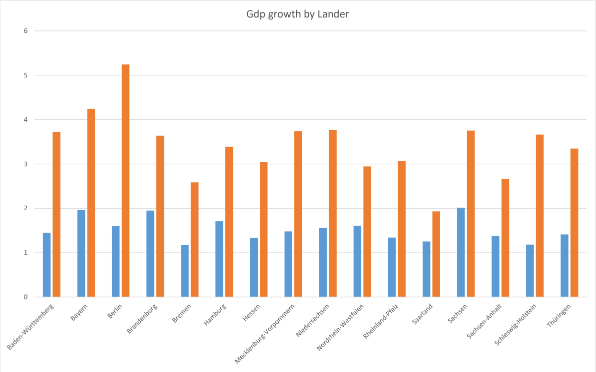
Show that RE have worse than average PDs, otherwise not necessarily collateral story (although the PD may be lower is a firm post collateral...).

Also: did the share of apartments owned by RE managers increased (story is that developers cannot push more construction)? Did RE managers improved their financials (profits, etc.)?

Comments III - Monetary policy in heterogeneous areas

Inevitable that monetary policy will not be optimal for specific areas of a single country or of a currency union.

California vs Michigan vs New York vs North Carolina
North and South of England (London especially)
Even Germany is highly heterogeneous



Comments IV - Policies implications

Of course there are going to be adverse effects in areas with different business cycle conditions.

Implication in my view: monetary policy cannot take care of "too many issues", need other instruments

In this case Macropru may be especially powerful: cap the rate of growth of lending to RE sector, put a capital add on for higher risk concentration, adjust LTVs.

Possibly also fiscal policy can play a role (stamp duty tax, property taxation)

Of course, we can agree to disagree

Final quibbles

- Are loans to RE managers securitized? In this case, risk may get out of banks' balance sheet (it goes somewhere else, still interesting to understand where)
- Relationship with other policies, APP and negative rates (effects on long term rates, impacts on demand, too)
- German CR has reporting threshold at 1mln euros, may miss higher credit to SMEs, also in manufacturing, possibly exporters (weak euro in those years helped).
- RE management companies defined as "unproductive", a bit too strong IMHO. Difficult to measure productivity of that sector.

Conclusion

- Very interesting paper on extremely important topic. I really enjoyed reading it. Food for thought for policy.
- Can make important contribution to the literature.
- Thank you for your attention!