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

José-Luis Peydró

(LUISS University & EIEF Einaudi)

ECB, Frankfurt, 18th September 2025

One-page summary of the paper

Question:

- Analysis of the effects of central bank corporate debt purchases (CSPP)
- In a setting in which the banking sector frictions that they are supposed to address do not exist ("a saturated credit market")

Data and shock:

- Germany as a experimental setting: (i) CSPP (QE-type) monetary policy; (ii) strong economy; (iii) Bundesbank admin matched datasets

Key results:

- Banks reallocate funding almost entirely to the real estate sector, which fuels real estate overvaluation and impairs financial stability
- An elasticity of residential real estate prices to credit supply of 0.84, which is considerably higher than prior estimates in the literature

General comments and outline of the discussion

Great overall paper!!

- Important question, for both academia and policy
- Excellent identification and very interesting results

Paper concludes: "*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*."

My discussion is **mainly on policy implications and social costs:**

- The elasticity of RE prices to credit and other monetary shocks
- Financial frictions that drive the results
- Macro and micro prudential policy
- Monetary policy (MP)
- Other social costs beyond financial stability
- MP and policies restricting real estate construction

High elasticity due to saturated credit markets or (partly) to other shocks?

- A key result is the high elasticity of residential real estate prices to credit supply of **0.84** (much higher than estimates in the literature)
- Paper proposes **"saturated credit markets"** for the high elasticity, which I fully believe. Very clearly explained in the paper

High elasticity due to saturated credit markets or (partly) to other shocks?

- A key result is the high elasticity of residential real estate prices to credit supply of **0.84** (much higher than estimates in the literature)
- Paper proposes **"saturated credit markets"** for the high elasticity, which I fully believe. Very clearly explained in the paper
- But you should (I think) shut down effects from other monetary policy instruments used at the same time (**QE for public debt and NIRP**) as well as other large shocks (e.g., over **1 million refugees**)
- A key point that you could study is whether the key cross-sectional variation *at the bank level and at the local area level for CSPP* (Corporate Sector Purchase Programme), that you exploit, is either:
  1. **Uncorrelated** to the differential (bank & local area) exposure to QE and NIRP (and other shocks)
  2. **If correlated**, then you do need to control for them in the regressions

What is the financial friction driving the results?

- Banks get a **negative credit demand shock from MP (CSPP)** and this MP shock is differential across banks

What is the financial friction driving the results?

- Banks get a **negative credit demand shock from MP (CSPP)** and this MP shock is differential across banks

- But, why do more affected banks increase credit to other firms?
  - **If not MM**, free capital then and more (good) lending to SMEs
  - Otherwise, they could have increased security holdings? They could also adjust down deposit rates to have lower credit and equity ...

- Is credit supply excessive in the sense of the **private NPV loan < 0?** E.g., MP shock → lowers bank charter value → excessive risk-taking

- Or is the **private NPV of the loan > 0, but the social NPV loan < 0?** (optimal for the bank but bad for society, ie negative externalities?)

What is the financial friction driving the results?

- Banks get a **negative credit demand shock from MP (CSPP)** and this MP shock is differential across banks

- But, why do more affected banks increase credit to other firms?
  - **If not MM**, free capital then and more (good) lending to SMEs
  - Otherwise, they could have increased security holdings? They could also adjust down deposit rates to have lower credit and equity ...

- Is credit supply excessive in the sense of the **private NPV loan < 0?** E.g., MP shock → lowers bank charter value → excessive risk-taking

- Or is the **private NPV of the loan > 0, but the social NPV loan < 0?** (optimal for the bank but bad for society, ie negative externalities?)

- **Understanding the frictions** is key for results but also for **policy**

Prudential policy in Germany should have changed?

- If risk-taking is excessive stemming from monetary accommodation in a world with social or even private over-lending, should the local (say German) prudential policy have changed?
  - Depending on **credit supply vs demand determinants**, then one could use **macropru on the borrowers vs on the lenders**
  - **Countercyclical capital requirements for banks**, or/and **pillar 2** capital requirements

Prudential policy in Germany should have changed?

- If risk-taking is excessive stemming from monetary accommodation in a world with social or even private over-lending, should the local (say German) prudential policy have changed?
  - Depending on **credit supply vs demand determinants**, then one could use **macropru on the borrowers vs on the lenders**
  - **Countercyclical capital requirements for banks**, or/and **pillar 2** capital requirements

- In an old paper, Maddaloni and Peydró (2011), we find that:
  - In a similar setting (euro area pre-2008 with very low monetary rates for Spain-Ireland)
  - Accommodative monetary policy soften lending standards but effects are weaker with stronger banking regulation & supervision

Prudential policy in Germany should have changed?

- If risk-taking is excessive stemming from monetary accommodation in a world with social or even private over-lending, should the local (say German) prudential policy have changed?
  - Depending on **credit supply vs demand determinants**, then one could use **macropru on the borrowers vs on the lenders**
  - **Countercyclical capital requirements for banks**, or/and **pillar 2** capital requirements

- In an old paper, Maddaloni and Peydró (2011), we find that:
  - In a similar setting (euro area pre-2008 with very low monetary rates for Spain-Ireland)
  - Accommodative monetary policy soften lending standards but effects are weaker with stronger banking regulation & supervision

- So, **should the German policy authorities have changed the regulation (eg CCyB)?**

Monetary policy

- **Germany eg did not introduce CCyB, but in general buffers are small**: eg in Spain, with dynamic provisioning (a CCyB), this buffer was just 1% of total bank assets in 2008 (though 25% of equity)
- So, at the end, **monetary policy influences financial stability** and, perhaps **not all can be solved with prudential regulation** (if used)

Monetary policy

- **Germany eg did not introduce CCyB, but in general buffers are small**: eg in Spain, with dynamic provisioning (a CCyB), this buffer was just 1% of total bank assets in 2008 (though 25% of equity)
- So, at the end, **monetary policy influences financial stability** and, perhaps **not all can be solved with prudential regulation** (if used)

Link from monetary rates to banking crises?

- In Jiménez-Kuvshinov-Peydró-Richter (forthcoming), **low MP rates for long are key** for high risk of posterior financial crisis, **but crucially if**:
  - Lower rates given systematic component of MP (or lower than r star)
  - **Credit and asset prices booms** ("red" zones), notably from credit supply
  - And **then a strong increase in monetary rates**
  - This **MP U does not matter for econ recessions** but for financial recessions
  - But even if all conditions apply, the probability of a crisis can be up to 40%
- But **not a banking crisis in Germany** (Euro area). Not all countries have booms, **regulation was good**, and still **higher probability of not crises**

Other crucial social costs

- One important social cost is financial instability, associated to banking crises, or high level of loan defaults

- But much higher **real estate prices** are also important for **inequality**, and potentially for **political polarization**, and this is an **important social cost**

- You could test for this: Are **local areas more affected by CSPP** more associated to **ex-post political polarization**?

  – (affected) CSPP banks → Real estate prices up → political extremism (or political polarization)

Not loans to real estate constructors & developers and real estate regulation

- In Spain, in the real estate bubble of the 2000s, there was massive low MP rates and the there was a **public policy of relaxation on allowing more construction of homes**

- In this paper, Germany, post 2015, the increase in lending was not to real estate (RE) constructors & developers, but **the full credit effect goes to RE asset managers**

- **All the effect goes to RE prices but not to higher RE construction**. Is it due to **real estate regulation?**
  - Germany is a **federal state** with variation in RE regulation across **landers and cities**. Hence, could you exploit some heterogenous effects on these regulations and check whether CSPP increases loans to constructors (and less RE prices) in areas with softer RE regulation?