Workshop panel 2: Transmission channel

Discussion

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Coping with Spillovers from policy normalization in advanced economies

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The views expressed in this presentation are those of the author and do not necessarily reflect those of the Banque de France or the Eurosystem

A discussion of two excellent papers

- **Both papers are very topical and policy relevant; two very different regions**
- **Assessing the effect of US monetary policy normalization on Latin American economies.** Fernando Pérez Forero; Central Reserve Bank of Peru.
  - Estimate the effect of US monetary policy normalization on 4 LatAm countries that use inflation targeting (CH, CO, MX and PE)
  - US IR shock leads to nominal depreciation, a rise in the domestic interest rate and inflation and a fall in aggregate credit.
  - US demand shocks less significant and more uncertain than monetary ones
- **Has the crisis changed the monetary transmission mechanism in Albania? An application of kernel density estimation technique.** Altin Tanku& Kliti Ceca.
  - Has the monetary policy transmission mechanism in Albania changed since the crisis? (yes)
  - Original technique based on the comparison of probability spaces with K-S tests

Most relevant policy questions for small open economies

- Are international monetary policy spillovers large?
- What do they depend on? (micro/macro)
- Are they overall positive or negative?
- If they are large and negative what can SOEs do about it?
- Generally, has the crisis changed the transmission mechanism of monetary policy? (considering that tools have changed too)

➢ Intense debate among policy makers (Rajan, Yellen, Fischer…) and academics (Rey, Blanchard…)

➢ Both papers highlight these questions very usefully

General comments common to both papers

- Both papers are very topical (motivation is not an issue here!)
- In both papers **the method is carefully explained**
  - Tanku/Ceca paper uses a new methodology
- Both papers probably need further developments in the **interpretation of the results**.
- In particular, more insight from the specificities of the economies under investigation would be welcome
  - In the first paper: are there lessons from cross-country differences? Why not include other LatAm, non IT countries?
  - In the second paper: not everyone familiar with Albania; recap of the main monetary policy decisions would be useful. Also: no spillovers here?
  - Both papers: what are the key take-away's for other countries?
- Both papers take a **macro approach**: how about **bank specific characteristics**?

Specific comments on ***Assessing the effect of US monetary policy normalization on Latin American economies***

- About 11 pages to describe the model (including estimation and identification of shocks) plus an appendix but only 4 pages on the results (half of them showing charts)!
- Good data description in Table 1 (US) but not for the LatAm countries.
  - We need a table with the acronyms! (or put it as a footnote to the charts)
- Focus on four IT countries: are they homogeneous? Insights from cross-country differences? Chile is different for ER and Cred, Peru for credit, Colombia for activity.
  - Interpretation is definitely too short, 6,5 lines (« some differences can be observed across country impulse responses » p. 19!). The short sentence that follows is not in line with chart.
  - Differences can stem from: different institutions, different structures, different sectoral specialisation, etc. This would really enhance interest for the paper.

Specific comments on *Assessing the effect of US monetary policy normalization on Latin American economies*

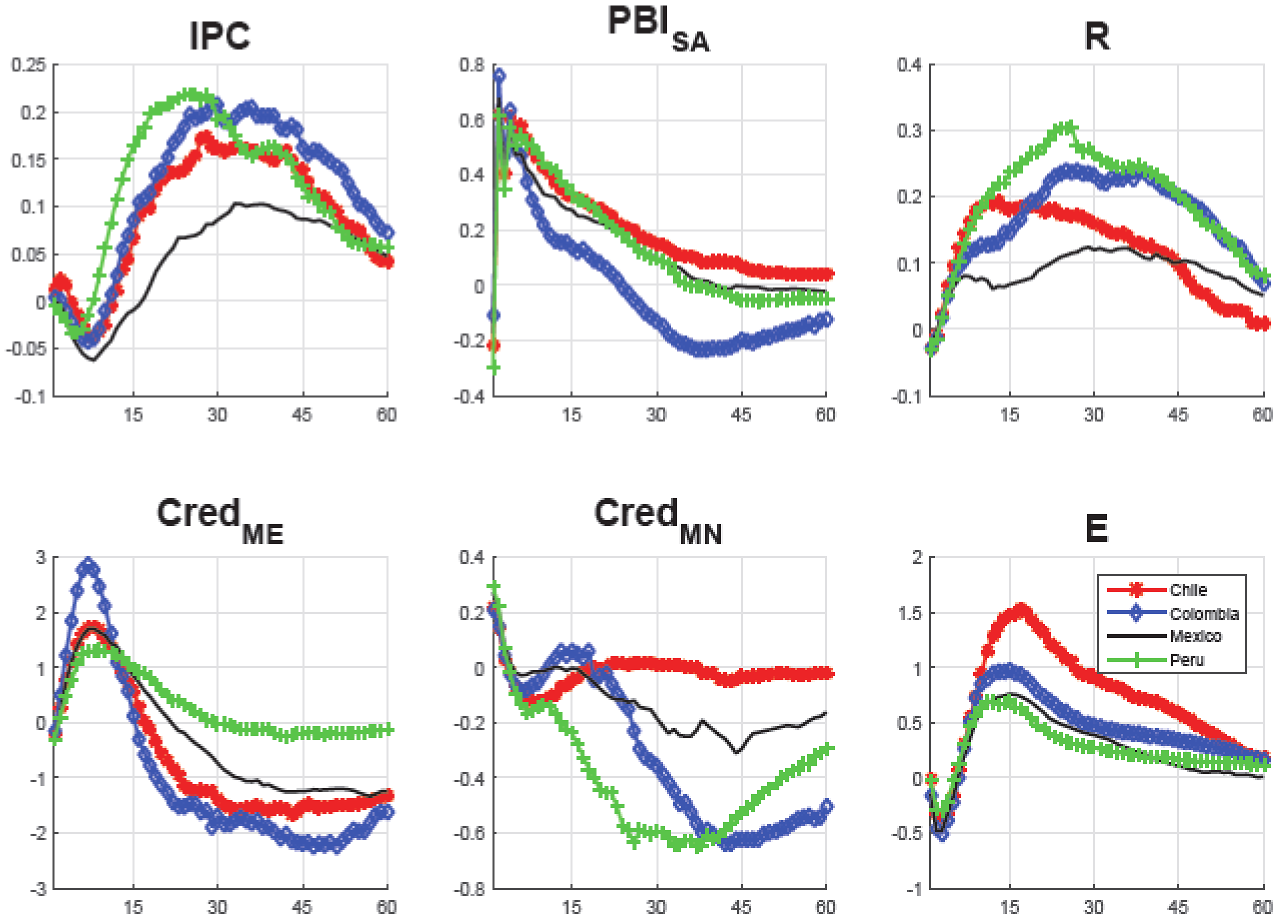


Figure 4: Response of LATAM variables after a US demand shock; median values

Specific comments on *Assessing the effect of US monetary policy normalization on Latin American economies*

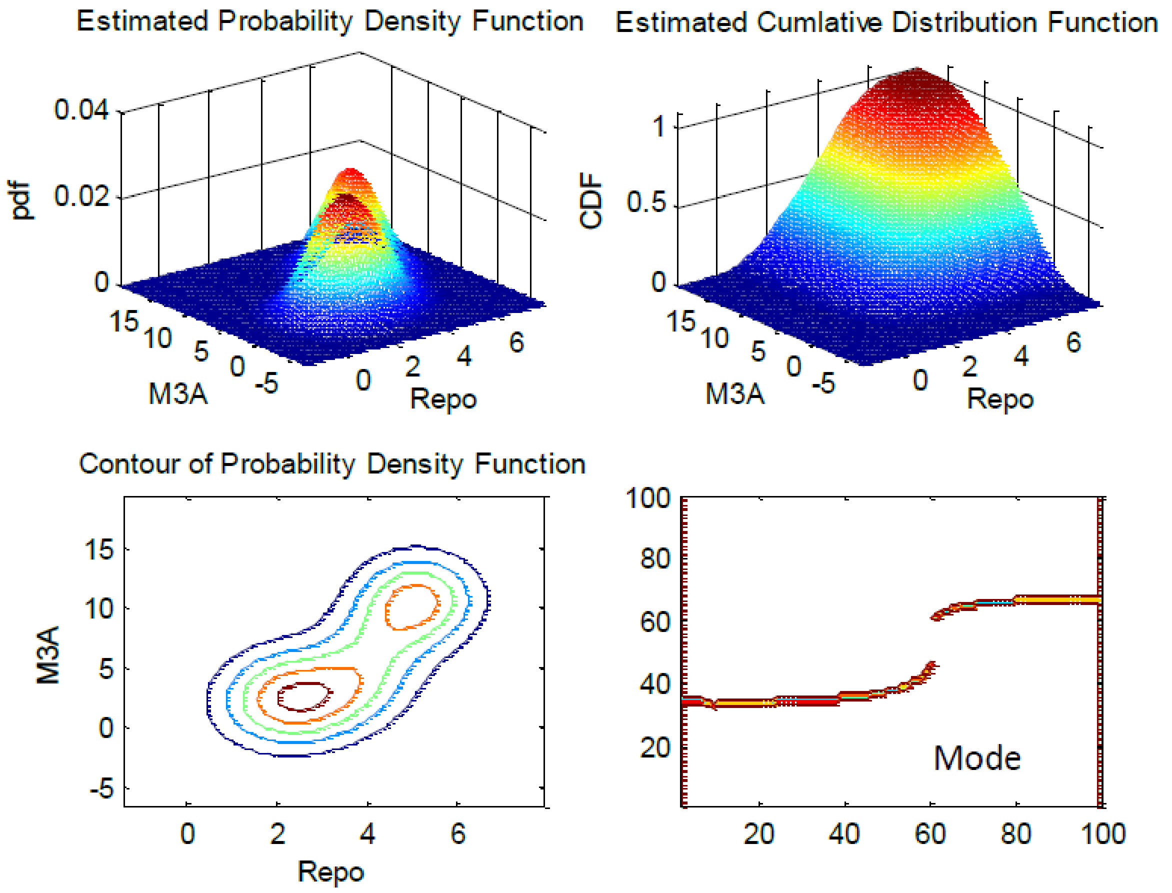
- Why not compare with other non-IT LatAm countries?
- Background information would be useful: IT since when? Stylized facts, etc? Crisis time(s)?
  - Structural breaks? Before and after GFC, but also idiosyncratic breaks
- US block:
  - For monetary policy shock: reaction of EPU? (down) Of CPI?
  - For demand shock: 5 lines…
- Is there no cross-country spillovers?
  - GVAR seems to be a relevant alternative: was it considered?
  - Another suggestion: adding trade?

Specific comments on *Has the crisis changed the monetary transmission mechanism in Albania?*

- What are the characteristics of the Albanian economy? What are the institutional arrangements of the central bank? (objectives, tools, framework)
- Description of the results is a bit vague (*We conclude that the relationship between interest rate and inflation, and interest rate and money has changed in the post-crisis period. These findings have important implications for the conduct of monetary policy in Albania*)
- The paper uses a new technique developed by the authors (Tanku and Ceca, 2013)
  - Why not compare with more traditional tools? Not clear why new method is superior. Lack of structure not necessarily an advantage.
  - Why not apply it to a country that is more often researched?
  - The interpretation of the results is not always easy (e.g. Fig 4).

Specific comments on *Has the crisis changed the monetary transmission mechanism in Albania?*

Figure 4, money response to repo rate after the crisis



Comment to both papers: role of banks in the (international) transmission of monetary policy

- See recent project by the International Banking Research Network (**IBRN**): **http://www.newyorkfed.org/IBRN/index.html**
- A network of central banks and international organization researchers focusing on global banks.
- Last project focuses on international monetary policy spillovers. Forthcoming in *the Journal of International Money and Finance* (JIMF).
- Meta-analysis by Claudia M. Buch (Deutsche Bundesbank), Matthieu Bussière (Banque de France), Linda Goldberg (New York Fed), Bob Hills (Bank of England). The International Transmission of Monetary Policy.
  - Note: The views expressed in this paper are solely those of the authors and should not be interpreted as reflecting those of the Federal Reserve Bank of New York, the Federal Reserve System, the Deutsche Bundesbank, the Banque de France, the Eurosystem, or the Bank of England.
  - See also non-technical version in VOXEU.

The International Banking Research Network (IBRN)

- **Founded in 2012, the International Banking Research Network brings together central bank researchers from 28 institutions to analyze issues pertaining to global banks.**
- **Empirical approach of the network:**
  - Analyze (confidential) bank-level datasets, share results
  - Use **common methodology** and perform meta-analyses
- **Research topics and outlets:**
  - **Adjustment of banks to liquidity risk** (*IMF Economic Review*)
  - **Cross-border effects of macroprudential tools** (*International Journal of Central Banking*)
  - **International transmission of monetary policy** (*Journal of International Money and Finance*)

The IBRN involves central banks and international organizations.

Reserve Bank of Australia

Deutsche Bundesbank

Banque de France

De Nederlandsche Bank

European Central Bank

Bank of Canada

European Systemic Risk Board

Banka Slovenije

Sveriges Riksbank

Central Bank of Russia

Banco de la Republica - Colombia

Bank for International Settlements

Hong Kong Monetary Authority

Central Bank of the Republic of Turkey

National Bank of Poland

Banca D'Italia

US Federal Reserve Board

Central Bank of Ireland

Banco de México

Banco Central do Brasil

International Monetary Fund

Norges Bank

Oesterreichische Nationalbank

Central Bank of Chile

Bank of Korea

Banco de Portugal

Bank of England

Swiss National Bank

Bank of Japan

Banco de España

Reserve Bank of India

Financial Stability Board

This initiative of the IBRN explores transmission of monetary policy through banks into lending.

- **The IBRN uses a common research design. Participants …**
  - … jointly design methodology,
  - … compile data for common implementation,
  - … independently analyze confidential data at the country level,
  - … write own papers with deeper exploration.
- **Tests focus on the reaction of lending of banks to monetary policy decisions in the Euro Area, the US, the UK, and Japan.**
  - Use unique bank-level datasets of 17 country teams
  - Enables cross-country comparisons, meta-analysis
  - Distinguish periods of conventional and unconventional policies

➢ **This meta-analysis reports common patterns: No publication bias!**

High-level take aways

1. **There is extensive evidence for international spillovers.**
   – Significant **inward transmission** of foreign policy to domestic banks; **outward transmission** mainly through global banks
2. **Monetary policy proxy matters during unconventional policy periods.**
   – Short rate and shadow policy rate produce similar results during **conventional** periods.
   – **Shadow rate** gives more evidence of spillovers during unconventional periods.
3. **The degree of spillovers differs between source countries.**
   – US policy generates significant spillovers for almost all countries; evidence of transmission is more varied for other source countries.
4. **Bank characteristics matter, but pattern is not straight-forward**
   – Cross border asset and liability positions of banks matter most.
5. **Domestic lending activity is more insulated than expected.**
   – Despite substantial spillovers, there is **low explanatory power**.

To conclude

- **Two very interesting and papers.**
  - The transmission channel of monetary policy is indeed plays a central role in the policy debate
  - The authors rely on sophisticated techniques
- **Both papers could easily clarify the results.**
  - Interpretation of the result need to be beefed up
  - What are the main take away's for central bankers? For IO's?
- **In the longer run: need to take into account bank heterogeneity.**
  - Banks play a key role in the transmission mechanism.