

Panel Discussion

Massimo Rostagno European Central Bank

Workshop on Non-Standard Monetary Policy Measures

Frankfurt am Main, 18 June 2013

EUROPEAN CENTRAL BANK © www.ecb.europa.eu

Irrelevance Result

Under an "interest on reserves regime" (IOR), if the money market is saturated with excess reserves, quantitative monetary policy does not influence prices or quantities that we care about

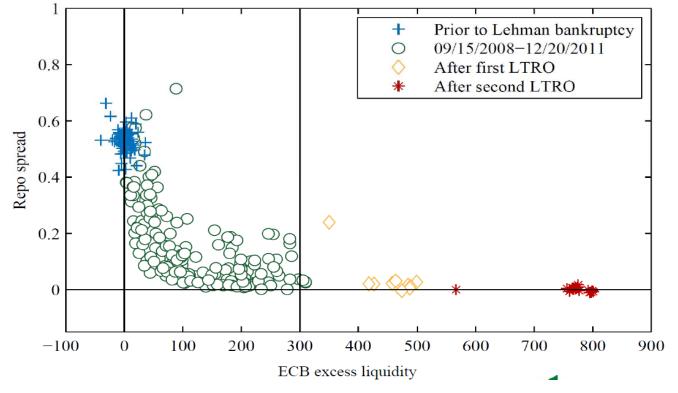
Paradox

Excess liquidity swapped for long-dated securities (or long-term central bank credit) need segmented markets to produce an impact on long maturities. But segmented markets immunise the economy against such an impact.

Warning

Did you check whether fiscal policies are cooperative? If not, what about moral hazard and lock-in effects of non-conventional policies?

Irrelevance of Excess Liquidity

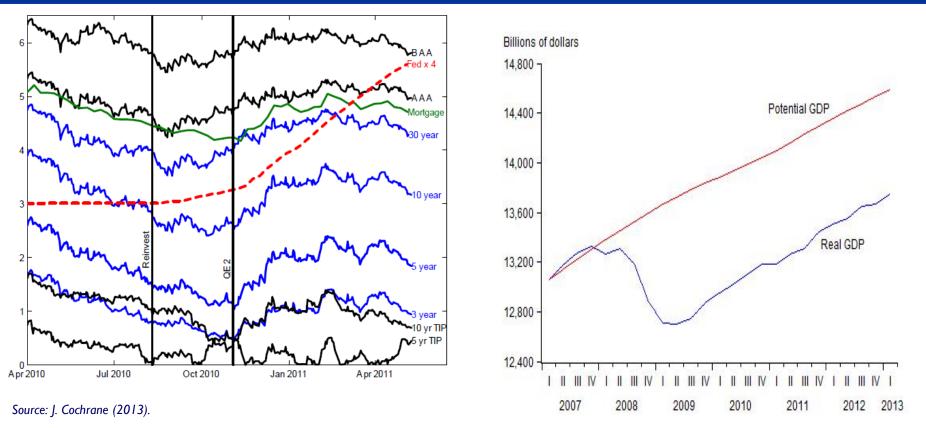


Source: Mancini, Ranaldo, Wrampelmeyer (2013). Notes: Repo spreads in percentage points

But: banks (in EA) reveal strong preference for excess liquidity!

- > Large liquidity stocks can help banks circumvent money market frictions
- When demand for narrow liquidity services (reserves) is satiated, the economy may still have positive demand for broad liquidity services

Paradox: QE need habitats, habitats do not propagate



But (Vayanos-Vila): arbitrageurs convert shocks to supply of specific maturities into shocks to aggregate duration risk

- In crisis times, they are under-capitalised, so arbitrageur inter-temporal arbitrage is less powerful
- > So, interventions on specific maturities help restore transmission

In IOR, central banks can tighten credit conditions without shedding assets

- But, will Parliaments accept to take the interest rate risk ...
- > ... And make room in primary budgets for higher interest spending?
- Excess liquidity has given incentive to shorten (at least not to lengthen) maturity at issuance …
- > ... so, fiscal impact of higher rates can come quickly
- Could this lead to subordination of monetary policy?
- > But will bond vigilantes run on debt before that happens?

- > Do you think quantitative policies are neutral and ineffective?
- If not, what is your evaluation of their impact on term rates / macro?
- ➢ How do you see exit?
- > When will it come?