

# **Panel Discussion**

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# Workshop on Non-Standard Monetary Policy Measures

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### **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

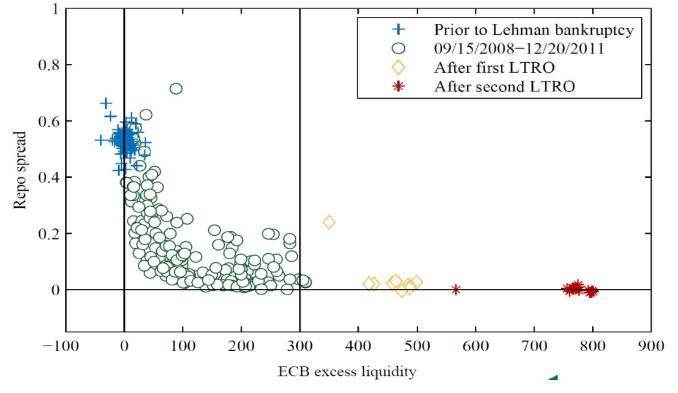
#### **Paradox**

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**

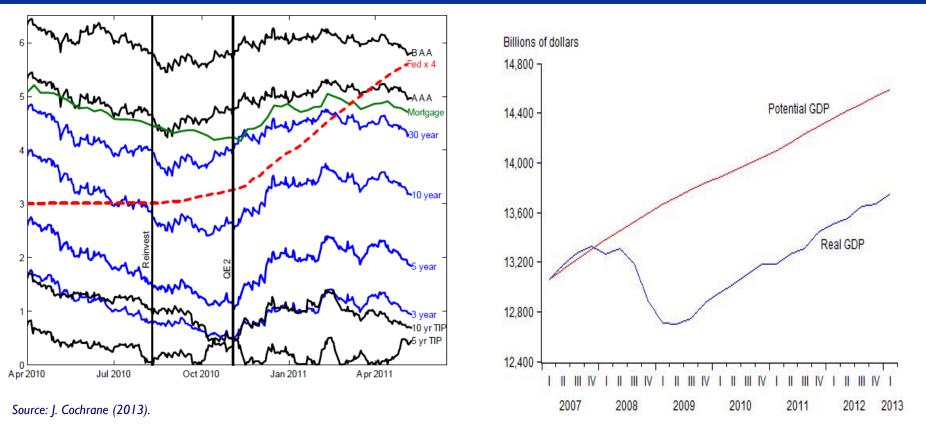


Source: Mancini, Ranaldo, Wrampelmeyer (2013). Notes: Repo spreads in percentage points

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?