Spillover of the ECB's monetary policy outside the euro area: How different is conventional from unconventional policy?

Oxana Babecká Kucharčuková
Peter Claeys
Bořek Vašíček

discussion by

Balázs Égert, OECD Economics Department

Topics

- Impact of conventional and unconventional monetary policy in the euro area on financial and real variables

- Spillover of conventional and unconventional euro area monetary policy on non-euro area European economies

Discussion

- I am supposed to discuss the paper

- I am also supposed to add in my own research

- My current work at the OECD: **quantification of structural reforms on long-term growth**

My value added is straightforward

- Discussing *the impact of <u>unconventional monetary policy on structural reforms</u>*

- Discussing *how structural policies/reforms would influence <u>the effectiveness of unconventional monetary policy</u>*

- Discussing *<u>unconventional structural reforms </u>and their implications for conventional monetary policy*

Just a bad joke

- In our quantification framework, **<u>monetary policy has a zero role to play</u>**

- But I would be happy to send you our paper on the quantification of reforms in the coming months

My (nice) comments

- **This is a very nice paper**
  - At the heart of the current policy debate
  - Filling a gap in the literature on empirical estimates for spillovers within Europe
  - State-of-the-art modelling approach
  - Interesting but not always straightforward results

Some more comments

- **On spillovers**

- **On how to measure unconventional policies**

- **On the difficulty to find an impact on the real economy**

- **On how to improve the impact of the paper**

1. On spillovers

- Paper seeks to identify the impact of unconventional MP in EA on GBR,SWE,DNK & CZE, HUN, POL

- It would be good to see the impact of UMP in the **USA/GBR** on UMP in the **euro area**

- The extent to which UMP in the **USA/GBR** and UMP in the **euro area** *overlap / magnify or attenuate* each others' effects in third countries

1. On spillovers

- How about spillover effects of the type:

  Euro area => small country 1 => small country 2

  Euro area => UK => Euro area

2. On how to measure UMP

- The paper uses a factor model to derive a measure of conventional and unconventional MP in the euro area

  - 14 variables mixed together
    - Factor no. 1: conventional monetary policy
    - Factor no. 2: unconventional monetary policy
    - Factor no. 3: none of the previous two

  - BTW, Figure 1: factors at quarterly frequency, whereas VARs estimated at monthly frequency?

2. On how to measure UMP

- Why not applying factor analysis separately to variables capturing
  - Conventional monetary policy (variables No. 1 to 5)
  - Unconventional monetary policy (variables No. 9 to 14)

- Why not using directly the ECB's main unconventional programmes (from Figure 3)

3. On the difficulty to find an impact on the real economy

- Are there enough observations after UMP started in the euro area to find an impact?

- Especially given the usual lag of about 1.5 years

- Lag length in VARs: =1?
  - I am not sure **whether such a lag structure helps identify impacts** on the real economy
  - **What is the max lag length** you allow in your estimations (it is not specified in the paper)
  - You should **use a much richer lag structure**

3bis. On other difficulties

- Effects varying over time? (shift dummy would not do the job)
  - Conventional MP stronger before 2009
  - UMP stronger after 2009
  - Time-varying VARs? (e.g. Darvas, 2013)
  - Time varying effects may also affect the loading factors in the factor analysis
- Non-linear effects?
  - UMP slowly coming to speed in the euro area
  - UMP needs to be large enough to have an impact?

4. On how to increase the impact of the paper

4. On how to increase the impact of the paper

It would be nice to have some **summary tables**

- On the instruments of UMP in the euro area and in the 6 countries considered

- Governor Singer had a nice overview on UMP in GBR, DNK, SWE, CZE and CHE a couple of weeks ago in Skopje ("Unconventional Policies of Central Banks in Europe in the Period of Disinflation")

- BTW, you could include **Switzerland** as well in your sample!

4. On how to increase the impact of the paper

It would be nice to have **some summary tables**

- On the channels of **transmission of UMP** (financial and real) (also compared to the usual MTM)

- A table summarising the **existing empirical literature on UMP** (mostly in the US, UK and Fratzscher et al (2014) for financial vars (asset prices) in the euro area

- A table **comparing your results explicitly** with existing estimates

4. On how to increase the impact of the paper

- The results are sometimes confusing
  - The paper sometimes talks about **positive shocks**
  - The paper then talks about **negative shocks**

  There should be a common language: => easing both for CMP and UMP, and call it either a positive or negative shock (but be consistent)

  Table 2: summary results => confidence intervals?

  BTW, how are the confidence intervals calculated when reported in the figures?

Congratulations

This is a very nice paper with a great potential!