Financial Vulnerabilities, Macroeconomic Dynamics and Monetary Policy

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AN EMPIRICAL PAPER

- Threshold VAR
- Test non-linearities (disjoint subsamples)
- US data 1975-2014
- Define measures of vulnerability*
- Shock them, look at IRFs (Y, U, π)

MEASURES OF VULNERABILITY

- Private debt (Q: tried other measures of credit gap?)
- Investor risk appetite (Q: tried to add a bond-related measure in ALLM measure, eg IG-HY gap?)
- Financial sector leverage
- Maturity transformation

QUESTIONS ON VULNERABILITY MEASURES

- Adding measures of / accounting correlation (eg, bond/equity returns)?
- Accounting for asset encumberedness (a key mechanism behind fire sales, cf Greenwood, Landier and Thesmar JFE 2015)
- Liability side: quid of a shock to own equity? Only indirectly addressed through leverage

SUGGESTIONS

- Cross border dimension
  - CA imbalances
  - FX mismatch
  - Liquidity mismatch

- Vulnerabilities and unconventional monetary policy tools
- Ongoing work on central-bank induced changes in liquidity mismatch – micro-based evidence of long-term improvement in vulnerability “thanks” to non-conventional measures (draft soon available)

FURTHER SUGGESTIONS

- Finding a model that fits non-linearities
  - Cesa-Bianchi and Rebucchi 2015 (does easing monetary policy increase financial instability?)
    - Real rate rigidities increase "vulnerability" in contractions
    - But reduce them in expansions
    - Trade off monetary policy/financial stability in contractions

    ➔Need to alter your concept of "vulnerability" (more "crisis" tainted)

    ➔ Need to enrich with financial frictions that can be tested with identifying restrictions

FURTHER SUGGESTIONS

- Fitting with the canonical literature “MP-FS”
  - Stein QJE 2012 (monetary policy as financial stability regulation)
    - One step deeper towards private money creation
    - Reserve requirements = “cap-and-trade” limits, i = permit price
    - Interesting! FIs not subject to RR can be the source of fire sales externalities