Discussion of "Macroprudential and Monetary Policy Interactions in a DSGE Model for Sweden" "

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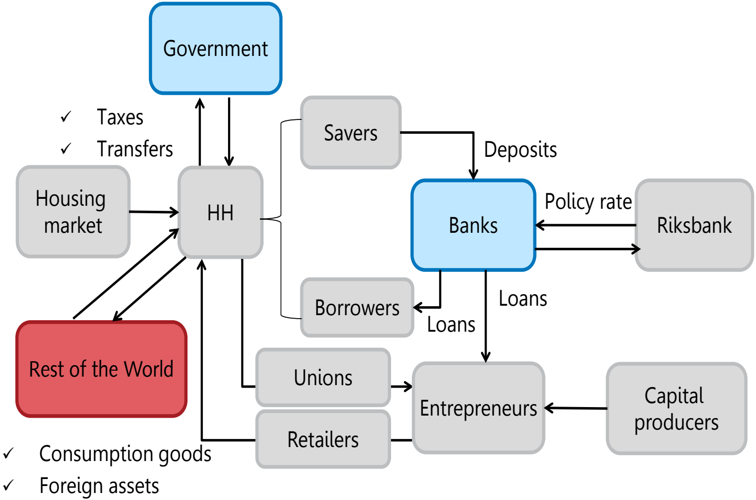
The paper in a nutshell

- **Goal.** Analyze the effects of macroprudential and monetary policy (..and fiscal) on **HH debt** and **Welfare**
- **Set-up.** DSGE model with housing and a banking sector estimated on Swedish data.
- **Results.**
  - *Short-run*: Monetary policy is a blunt tool to reduce DTI (increase on impact, larger consumption costs in the medium run)
  - *Long-run*: Demand-side macropru tools (LTV, amortization requirement) more effective than supply-side measures (risk weights). *Lower* LTV welfare improving.

Model set-up


Government
✓ Taxes
✓ Transfers
Housing market
HH
Savers
Deposits
Banks
Policy rate
Riksbank
Borrowers
Loans
Loans
Rest of the World
Unions
Entrepreneurs
Capital producers
Retailers
✓ Consumption goods
✓ Foreign assets

Comments: model

- **Leverage** $\frac{b}{qh} = \frac{m\delta^h}{\rho}$**.** Leverage is exogenous and macropru instruments do not have big impact on GDP or housing in the long-run... not so surprising that demand-side instruments (m, ρ) are more effective in reducing $\frac{b}{Y}$?
- **Small open economy**
    - **Long-run.** Macropru has similar effects as in a closed version of the model (Finocchiaro et. al, 2016).
    - **Dynamics.** Hard for DSGE SOE models to reproduce observed comovements in international business cycles (Justiniano and Preston, 2010).
        - **Financial integration** increases macroeconomic interdependence (Dedola, Karadi and Lombardo, 2013).
        - **In the model**, HH can invest in foreign assets while banks balance sheet is unchanged. **In the data**, cross-border exposure of Swedish banks .

Comments: model

- **Always binding constraint**
  - **Overestimate the impact of macropru instruments on debt.** (Hull, 2016, and Svensson, 2016)
  - Impact on **Welfare** analysis?
  - Alternative: Penalty function (Lambertini, Mendicino, Punzi, 2013), Occbin (Guerrieri and Iacoviello, 2015)
- **Welfare**
  - Robustness to alternative welfare measures (i.e., different weights)?

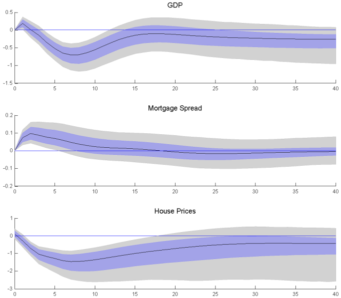
Comments: estimation results

- **Estimated volatility.** Impact on the tightness of the constraint and size of pecuniary externality.
- **High degree of "rate stickyness"**. Impaired monetary policy transmission mechanism ($\sim$speed of adjustment bank rates to monetary conditions). In line with empirical evidence in continental Europe, less clear in Sweden. (VAR)

Final thoughts and conclusions

- Interesting paper on a important and timely topic.
- Hard to draw welfare conclusions in a model with an always binding constraint. More robustness is needed.
- Worth to further explore the consequences of financial integration on effectivness of different policies.
- Thanks!

IRF Monetary Policy Shock



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