

DISCUSSION OF DARRACQ PARIÈS AND
PAPADOPOULOU'S "FINANCIAL HETEROGENEITY
AND CENTRAL BANK NON-STANDARD MEASURES
IN A MONETARY UNION"

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THIS PAPER

Question:

- What is the possible transmission mechanism of the unconventional policies conducted by central banks? (mainly, purchases of government bonds)

Approach:

- Multi-country DSGE model with several endogenous frictions that arise due to information asymmetries and with several exogenous frictions

THIS PAPER

Answer:

- Bank credit channel and exchange rate channel are dominant in transmission
 - ▶ Former is through the relaxation of banks' constraints
 - ▶ Latter is through the effects of exchange rate depreciation on trade (b/w EZ and RoW)

MODEL INGREDIENTS

Model includes several frictions that arise due to information asymmetries and several exogenous frictions:

- Moral hazard
- Costly state verification
- Oligopolistic retail banking
- Risky debt contracting to non-financial firms
- Sticky loans
- Sovereign risk in bank balance sheet
- Sticky wages
- Sticky prices
- Adjustment costs in banks' and households' problems
- Et cetera

EXPERIMENTS UNDER...

- Cross-country differences in calibration
- Zero lower bound on interest rates
- International trade of government bonds between the EZ and the RoW, and lack thereof

COMMENTS: OVERVIEW

- General comments
 - ▶ Baseline model: 1-2
 - ▶ Conduct of unconventional policy: 3-6

COMMENTS (1): UNDERSTANDING THE EFFECTS OF INGREDIENTS

Many ingredients: Why do these need to be included in the model and how much they are responsible for the outcome?

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Many ingredients: Why do these need to be included in the model and how much they are responsible for the outcome?

- E.g. financial sector.
 - ▶ What is the sole contribution of each friction?
 - ▶ Moral hazard, CSV, monopolistic competition in lending. Why different types of frictions?

COMMENTS (2): INTRODUCING HETEROGENEITY

Approach for introducing heterogeneity in financial sector: Is different calibration enough to capture heterogeneity?

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Approach for introducing heterogeneity in financial sector: Is different calibration enough to capture heterogeneity?

- Economies in the Eurozone experienced different structural problems:
 - ▶ Spain, Ireland, Portugal: Non-tradable sector originated boom-bust cycle, investment in low return sectors (e.g. Gete, 2010; Reis, 2015; Ozhan, 2016)
 - ▶ Italy: Bank-sovereign nexus (e.g. Bocola, 2016)
 - ▶ Greece: Lending boom-bust, bank-sovereign nexus, fiscal imbalances (e.g. Gourinchas, Philippon, and Vayanos, 2016)

“All happy economies are alike; every unhappy economy is unhappy in its own way”

COMMENTS (3): CONDUCT OF UMP

Why not as a response to adverse shocks?

- Conduct of UMP experiments in response to adverse shocks
- It would be interesting to assess the impact of UMP against efficient and inefficient shocks.
- How much stabilization is carried out through credit and exchange rate channels in the presence of efficient and inefficient shocks?

COMMENTS (4): TRADE-OFFS

What are the trade-offs in navigating multiple objectives? (i.e price stability vs. financial stability)

- Tinbergen (1952)
- Welfare implications?

COMMENTS (5): CENTRAL BANK BALANCE SHEET

1. Why does it make a difference whether private agents hold assets themselves or the government holds them on taxpayers' behalf?

(Barro-Wallace-Sargent Irrelevance)

- No mention on whether policy authority is more efficient in intermediation or not
- My guess:
 - ▶ CB engages in a tax financed purchase of a bond that is held by some certain fraction of the population, then the bond is transferred to all taxpayers
 - ▶ Such redistribution of assets among “Ricardian” and “non-Ricardian” agents may change prices and allocations
 - ▶ Is this the reason? Needs to be clarified.
- But no fiscal union in the EZ (yet). Is it reasonable to assume tax financed UMP? [▶ Eurosystem balance sheet](#)

COMMENTS (5): CENTRAL BANK BALANCE SHEET (CONT'D)

2. If such central bank intermediation is always good, why do we need private intermediation?

- Big question.
 - ▶ Gertler-Karadi & Gertler-Kiyotaki introduces fixed costs
 - ▶ How to microfound it?

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- For instance, only about 45 percent of total deposits in Spanish financial institutions were from the residents in 2007:QIV (Santos, 2014)
- UMP is useful if designed to substitute private capital outflows with public capital inflows (Ozhan, 2016)

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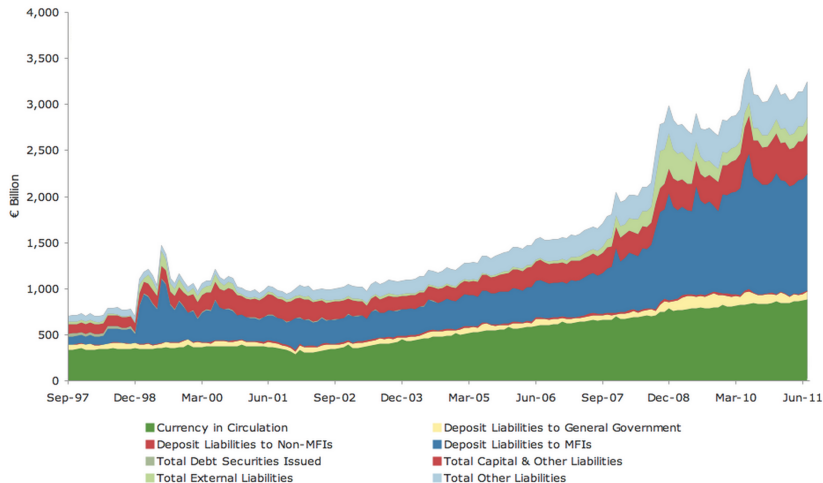
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2. International effect is studied through the dynamics between the EZ and the RoW. How about intra-EZ imbalances? RER dynamics?

CONCLUSIONS

- I applaud the efforts made in the paper
- Better assessment can be done to decide on model components
- Looking forward to seeing more from Matthieu and Niki!

EUROSYSTEM LIABILITIES



Source: European Central Bank