

Unkonventionelle Maßnahmen der Geldpolitik

Volker Wieland

Institute for Monetary and Financial Stability, Goethe University of Frankfurt

10.9.2014

Panelbeitrag: Verein für Socialpolitik

1. Some theory on policy at zero bound and pre-emptive strikes against inflation

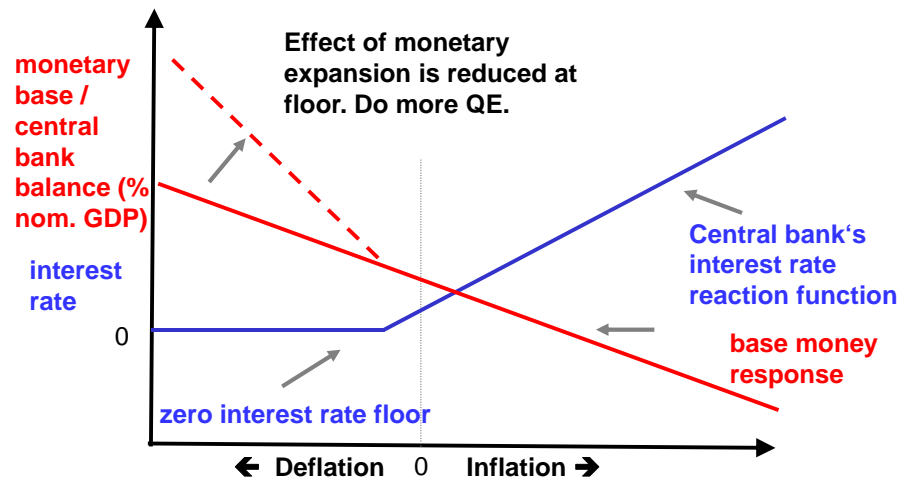
John C. Williams (President, FRB San Francisco)

It's been said, "An economist is a (wo)man who, when he finds something works in practice, wonders if it works in theory."

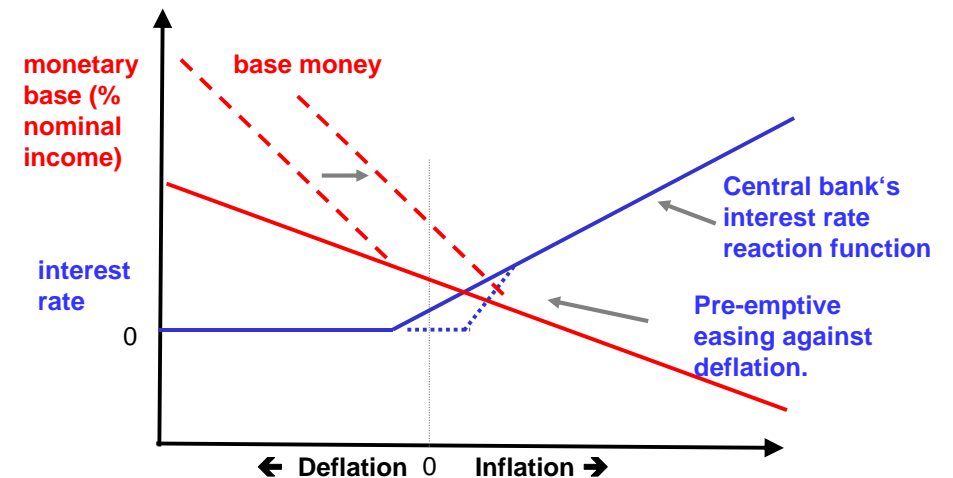
The study of the zero lower bound on nominal interest rates is an example of precisely the opposite: economists first figuring out what works in theory and then seeing if it works in practice.

Japan's experience ... led to a flurry of economic research,.. (which) came to a number of concrete conclusions and policy prescriptions that influenced policymaking during and after the global financial crisis.

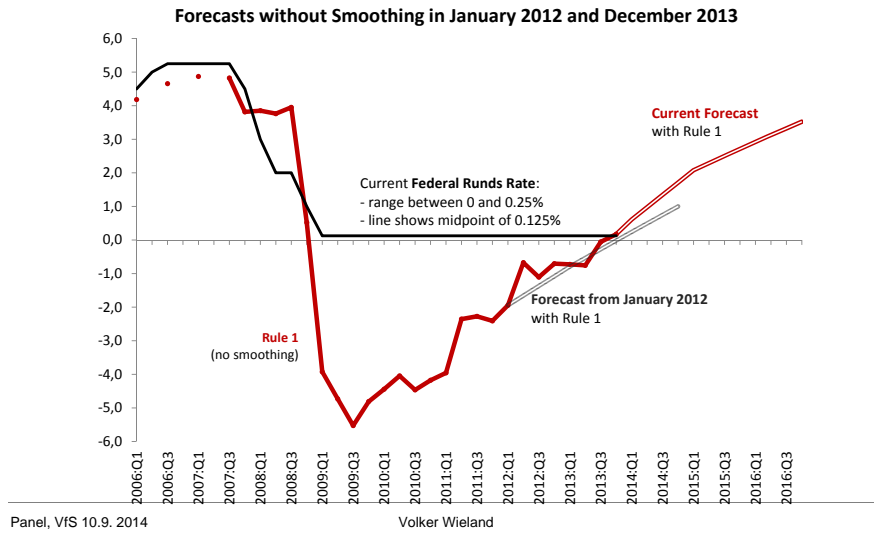
2. An example: From zero rates to balance sheet policy Orphanides & Wieland (2000)



3. Uncertain impact of quantitative easing provides rationale for pre-emptive strike.

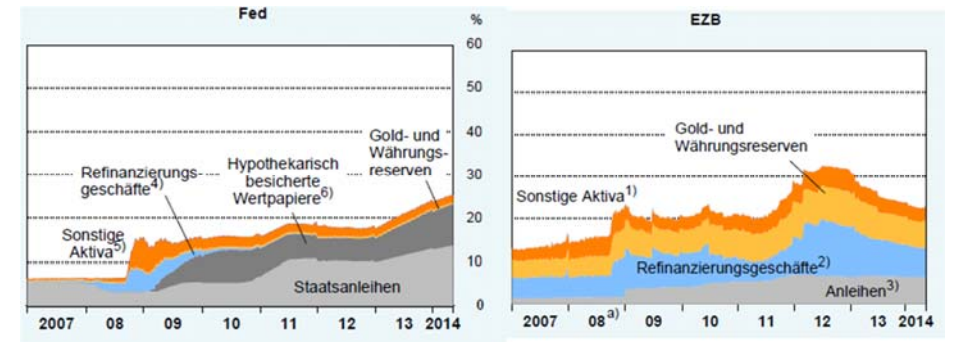


4. Fed interest policy versus historical rule



5

5. Fed and ECB balance sheets

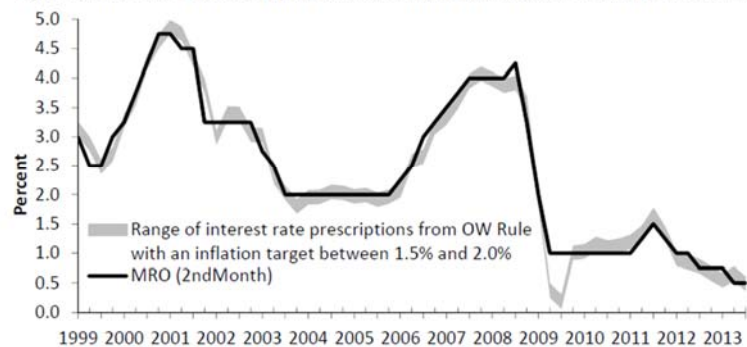


6

6. ECB interest rate reaction to inflation and growth forecasts.

$$i_t - i_{t-1} = 0.5(\pi_{t+3|t} - \pi^*) + 0.5(q_{t+2|t} - q_{t+2|t}^*)$$

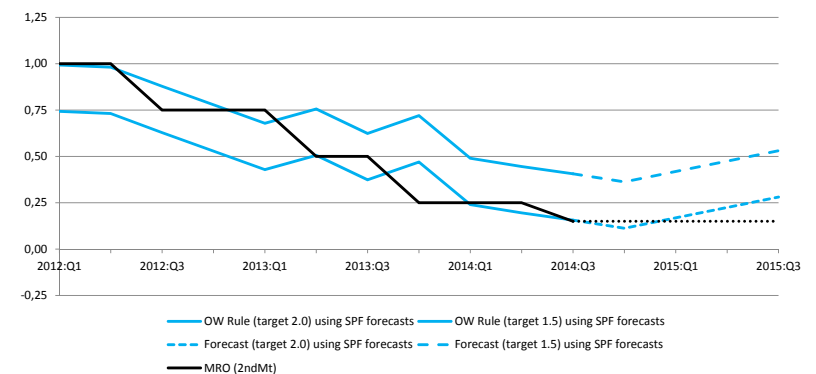
Figure 1: MRO Rate versus Orphanides and Wieland (2013) Rule with SPF Forecasts



7

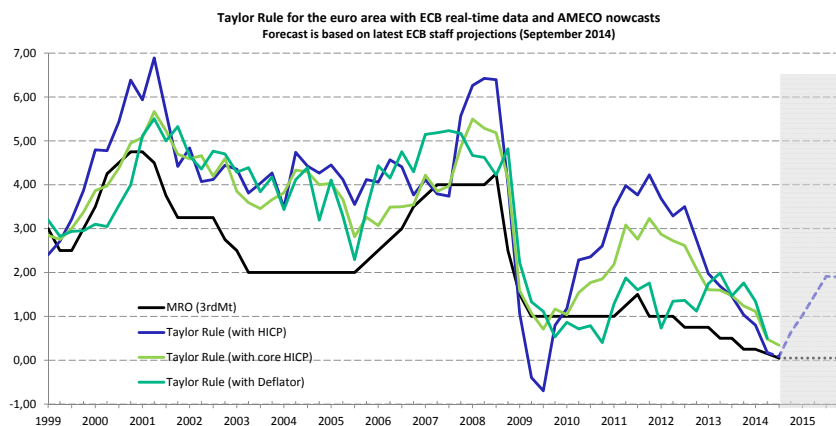
7. Current ECB rates are somewhat below the historical reaction pattern.

OW rule prescriptions based on SPF forecasts
latest update with 2014Q3 SPF data



8

8. ECB rates are also below prescriptions from Taylor's (1993) rule applied to €-zone.



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9

9. ECB is delivering a massive pre-emptive strike against deflation.

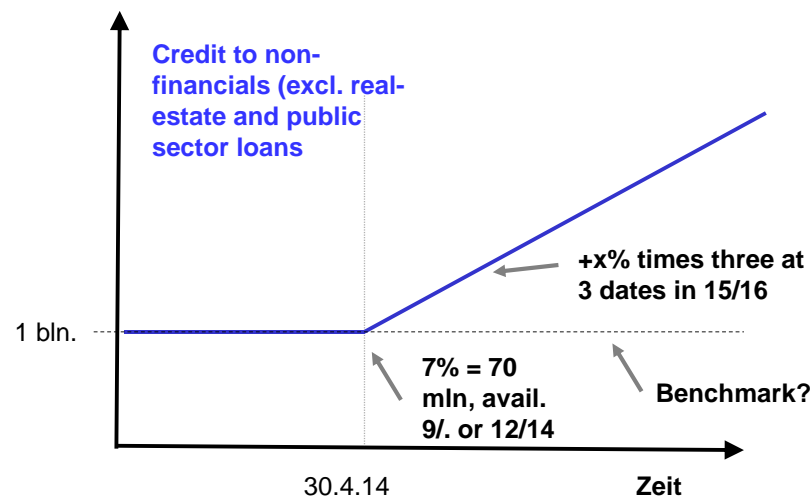
- Marginal facility: 0,20% (before 0,75%)
- Main refinancing operations: 0,05% (before 0,25%)
- Negative deposit rate: -0,20% (before 0%)
- T-LTRO: target long-term refinancing operations
 - up to 400 bln € new liquidity for banks (about 4,4% GDP)
 - for 4 years at fixed rate (Sep 14: 0,05% + 0,10% = 0,15%)
 - Re-pay after two years if lending to non-financial companies not expanded sufficiently.
- And ABS and covered bonds purchase program.
- Next step, broad range of government debt purchases.

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10

10. TLTRO Features: Example Bank



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11

11. Pre-emptive approach was used at the Fed already from 2002 onwards.

.. Gov. Ben Bernanke, Nov 2002, Deflation: Making sure „It“ doesn't happen here. *When inflation is already low and the fundamentals of the economy deteriorate the central bank should act more pre-emptively, and more aggressively than usual in cutting rates (Orphanides and Wieland 2000, Reifschneider and Williams 2000, Ahearne et al 2002).*

FOMC: Aug 2003, *The Committee judges that, on balance, the risk of inflation becoming undesirably low is likely to be the predominant concern for the foreseeable future. In these circumstances, the Committee believes that policy accommodation can be maintained for a considerable period.*

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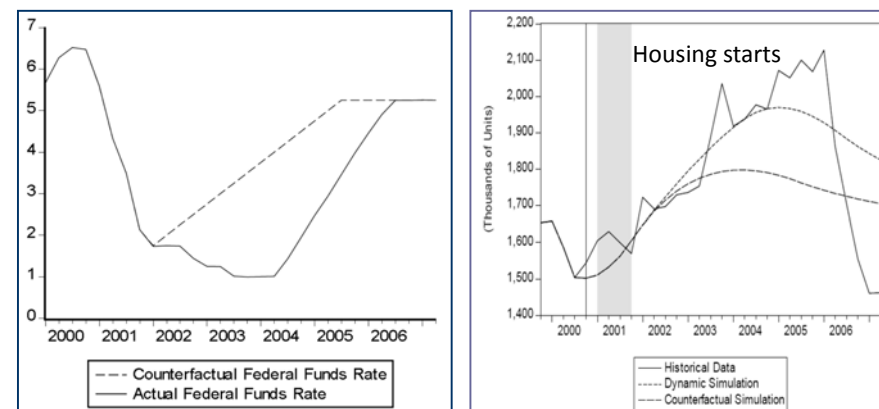
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12

12. Monetary easing was one of the factors supporting the sub-prime housing boom.

- The Fed then maintained for some years that it would remove policy accommodation at a measured pace.
- The low interest policy was likely an important contributing factor to the U.S. housing boom, which eventually triggered the global financial crisis.
 - See Taylor (2007), Jarocinski and Smets (2008), Kahn (2010), McDonald and Stokes 2013).

13. Taylor (2007): Higher rates implied by Taylor-1993 rule would have dampened boom.



14. Thus,

- given the experience of the Fed with **pre-emptive** strikes against deflation and „measured“ removal of policy accommodation, caution is advised.
- such pre-emptive measures may well increase the risk of exaggerations in asset markets.

