Session 3
Unintended Consequences on the Way Out
Shifting tides of the saving glut

Implementing Monetary Policy:
Old vs. New Normal

Globalization Dynamics: EU and US Perspectives
SUERF CGEG/Columbia SIPA IEB Societe Generale

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Old vs new monetary policy implementation

• Old systems
  • Single policy instrument
  • Corridors + market operations to hit the target
  • Minimally sized domestic balance sheets and (relative) reserves scarcity
  • (Relatively) narrow frameworks for lender of last resort used infrequently

• New systems
  • Multiple policy instruments (potentially)
  • Corridors (modified); what kinds of operations?
  • Larger balance sheets and (potentially) plentiful reserves
  • Broad(er) frameworks for lender of last resort (some dimensions)
Challenges for the new normal

• How big a balance sheet in “equilibrium”?  
  • Liquidity regulation as modern, dynamic reserve requirements  
  • Increased precautionary demand for central bank liabilities

• More complex corridors and/or market operations
  • More volatility in demand for reserves/central bank liabilities  
  • Growth in nonbank financing; smaller role of banks in money markets  
  • Operational challenge for central bank corridors and market operations in order to hit the target rate?  
    • Fed’s current “double floor”  
  • Or simply more volatility in policy rate around the target  
  • Stigmatized lending facilities?
Challenges for the new normal

• Low equilibrium policy rate => less policy headroom
  • More frequent use of forward guidance /QE to ease financial conditions
  • More (extended) periods of narrow term/risk premia and low vol?
  • Impact on monetary policy transmission mechanisms?

• International transmission and consequences
  • Increased demand for assets/funding/lending in particular currencies
International Currencies

Corporate Bonds, International Positions

Challenges for the new normal

• Low equilibrium policy rate => less policy headroom
  • More frequent use of forward guidance /QE to ease financial conditions
  • More (extended) periods of narrow term/risk premia and low vol?
  • Impact on monetary policy transmission mechanisms?

• International transmission and consequences
  • Increased demand for assets/funding/lending in particular currencies (USD)
  • Domestic monetary policy vs. global liquidity provision
  • How can/should domestic policy frameworks (incl. LoLR) be structured?