

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?



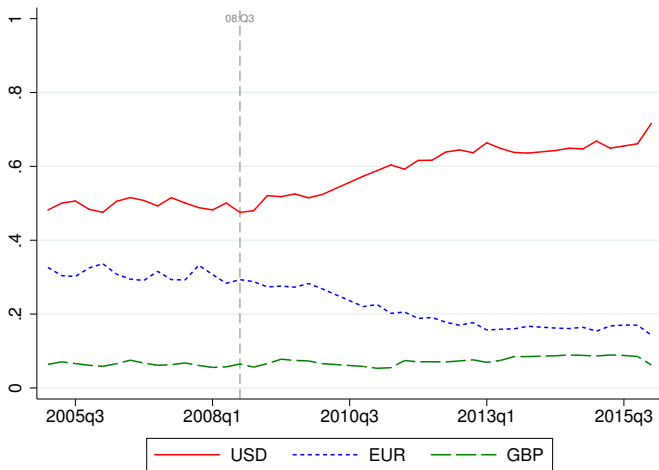
Challenges for the new normal

- 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



Src: Maggiori, Matteo and Neiman, Brent and Schreger, Jesse, International Currencies and Capital Allocation (September 25, 2017). Columbia Business School Research Paper No. 17-96. Available at SSRN: <https://ssrn.com/abstract=3042883>

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 - 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?

