

Panel: 'Shifting Tides of the Savings Glut'

**Monetary Policy Spillovers
in a World of “Savings Glut”**

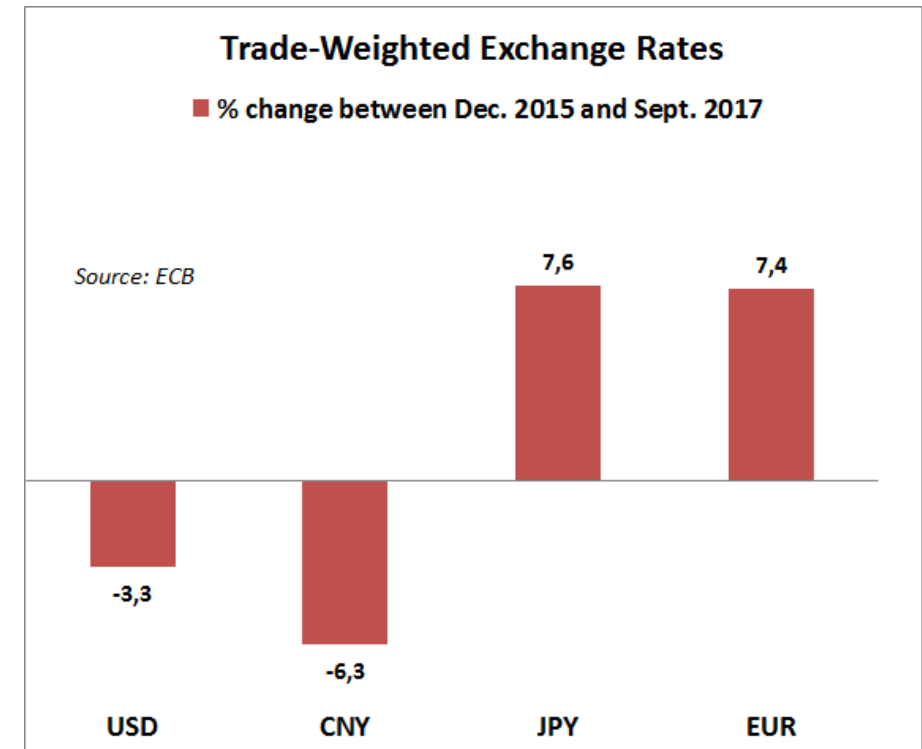
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** This document reflects the opinion of the author and does not necessarily express the views of the Banque de France or the Eurosystem*

Asymmetric preferences on US dollar stance

- Euro Area / Japan
 - Constraint: policy interest rates close to their negative lower bound
 - Aversion to USD weakness
- China
 - Constraint: exchange rate regime
 - Aversion to USD strength
- Softer USD trend since late 2015 - early 2016...
 - During China's market turmoil, the US Fed unusually expressed concern on cross-border monetary policy spillovers
 - Downgrading of expectations on US monetary policy normalization and Trump's fiscal stimulus
- ...has been friendly to China
- ...but has restrained monetary policy room for maneuver in the Euro Area and Japan



Asymmetric spillovers of US Fed's normalization sequencing

➤ Gov. Brainard's stylized model (2017)

- Greater sensitivity of the exchange rate to expected ST rates than to the term premium → balance-sheet normalization has not the same cross-border spillover effects than policy rate normalization

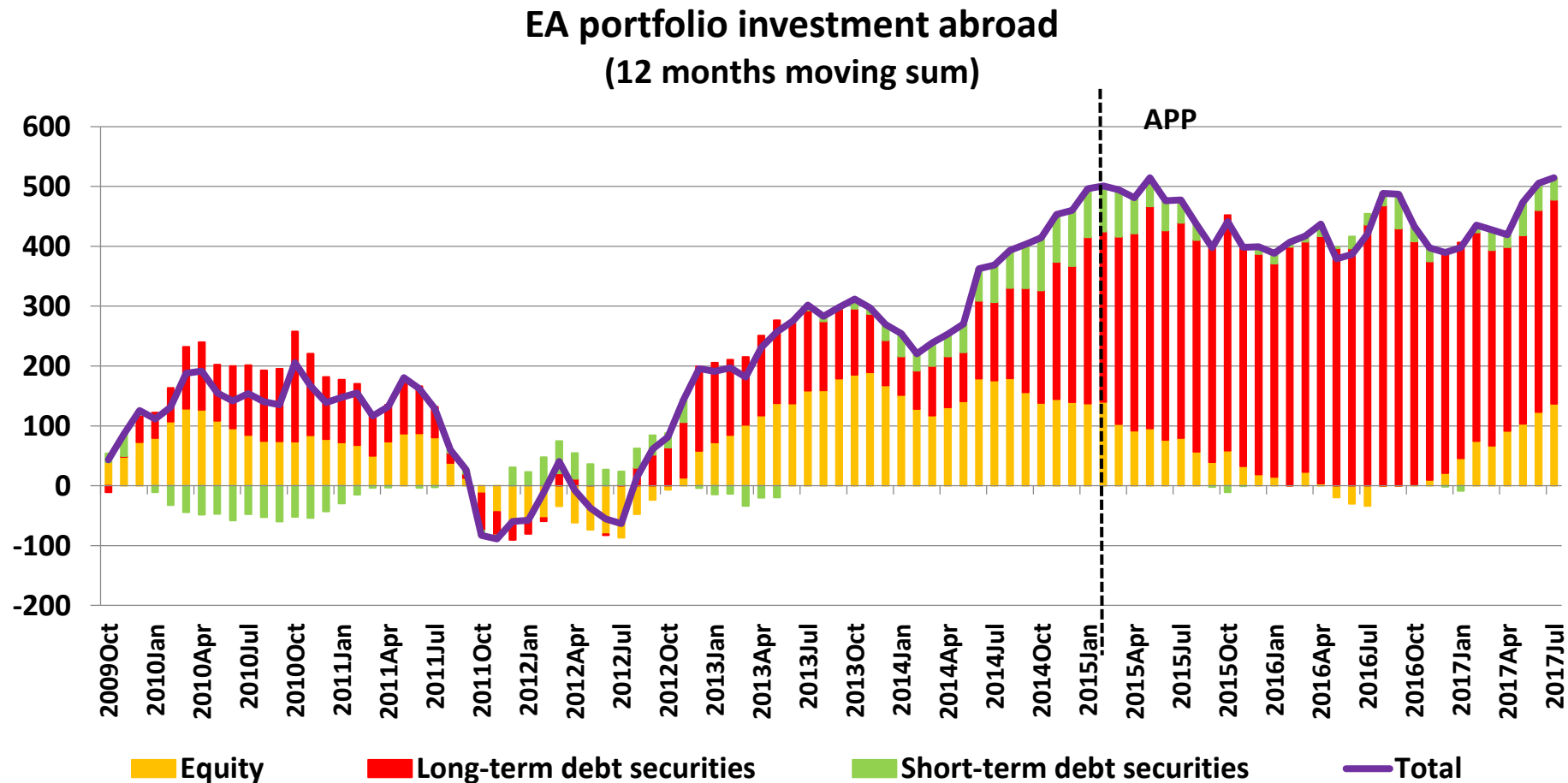
➤ Implications:

- US Fed's sequencing favoring balance-sheet normalization (over policy rate normalization) would be friendlier to foreign economies managing their exchange rate (China) than to foreign economies with flexible exchange rates and at the effective interest rate lower bound (Euro Area, Japan)
- US Fed's sequencing may have non-neutral implications for the choice of the normalization strategy in foreign economies
- Normalization strategies may have non-neutral implications for global imbalances

➤ US Fed: first-mover advantage?

Global spillovers of the ECB APP?

EA residents substantially increased their purchases of foreign bonds...



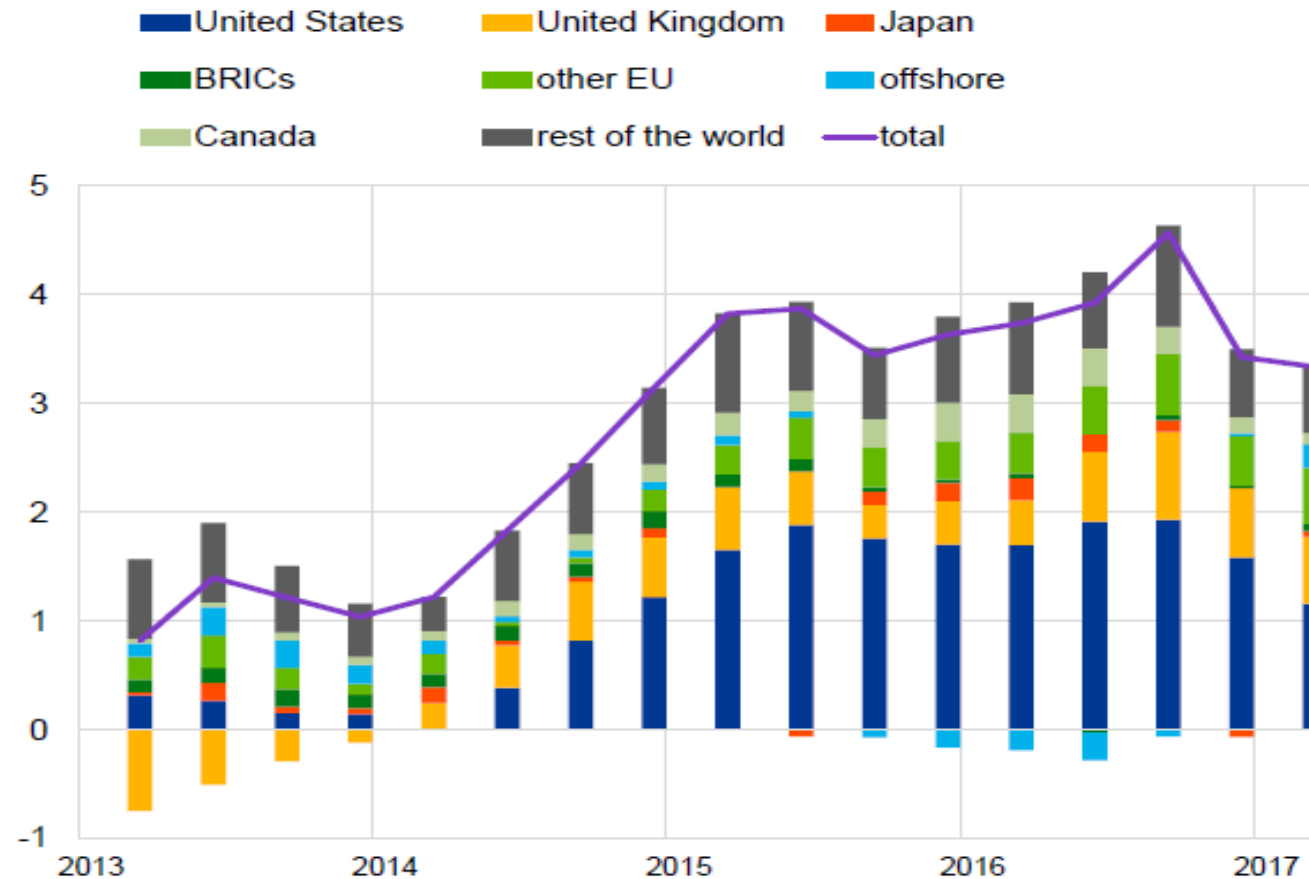
Source: ECB

Note: A positive (negative) number indicates net purchases (sales) of non-euro area securities by euro area investors

Global spillovers of the ECB APP?

...predominantly into bonds issued by other advanced economies (rather than EM)

Geographical breakdown of EA investors' net purchases of non-EA debt securities

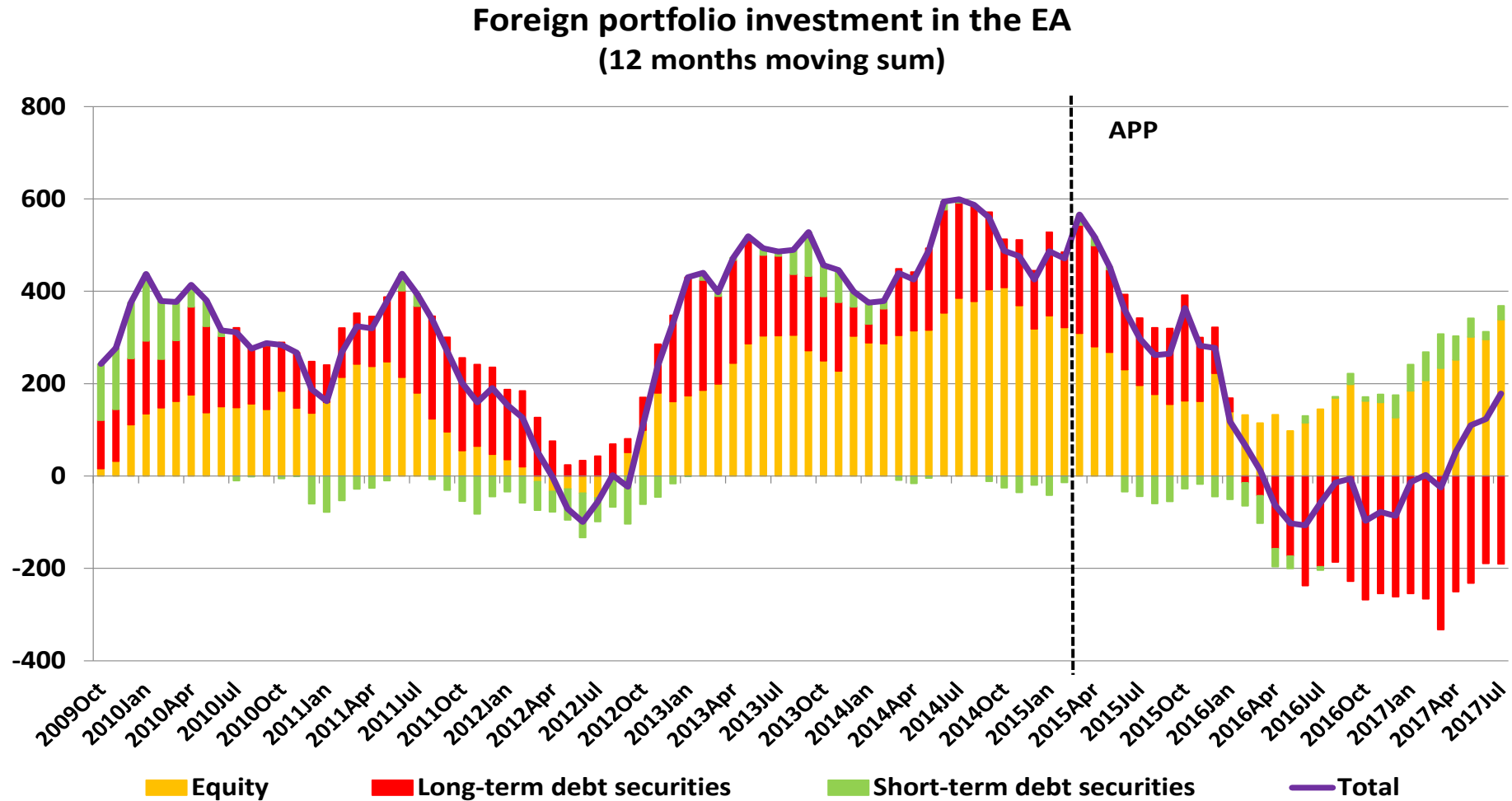


Source: ECB

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Global spillovers of the ECB APP?

Non-residents sold EA bonds but bought EA equities



Source: ECB

Note: A positive (negative) number indicates net purchases (sales) of euro area securities by non-euro area investors