
Monetary policies

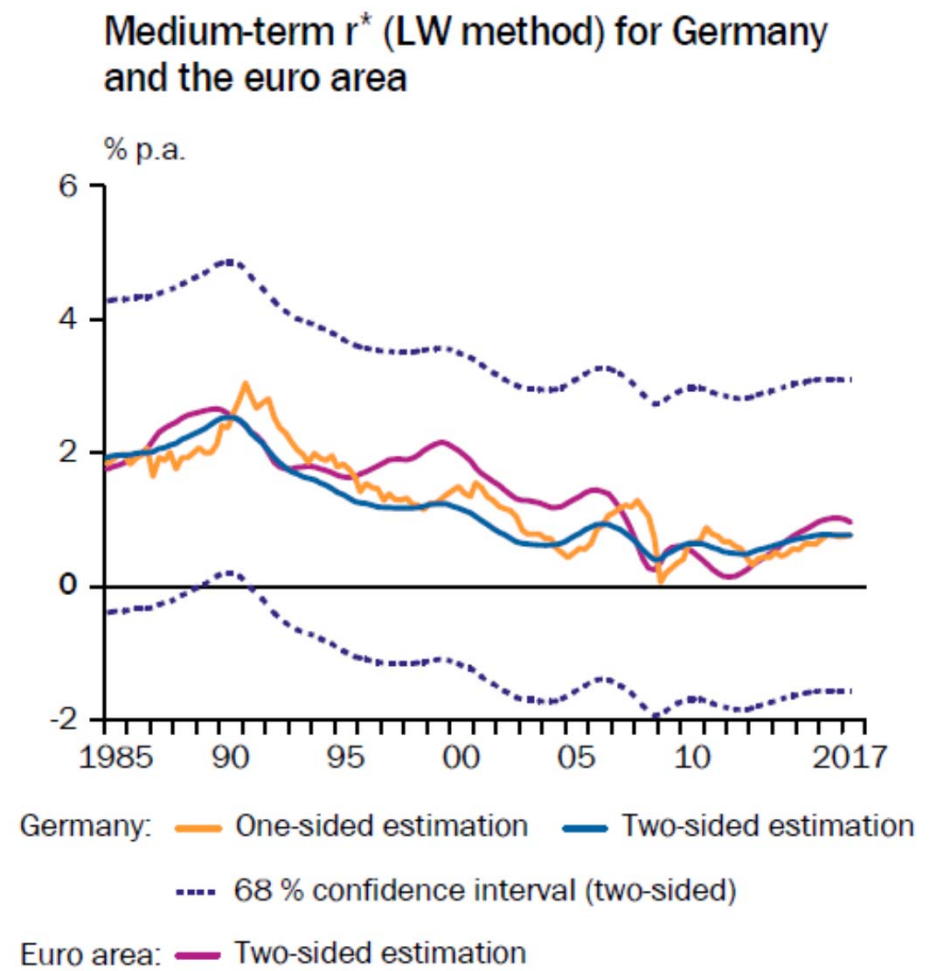
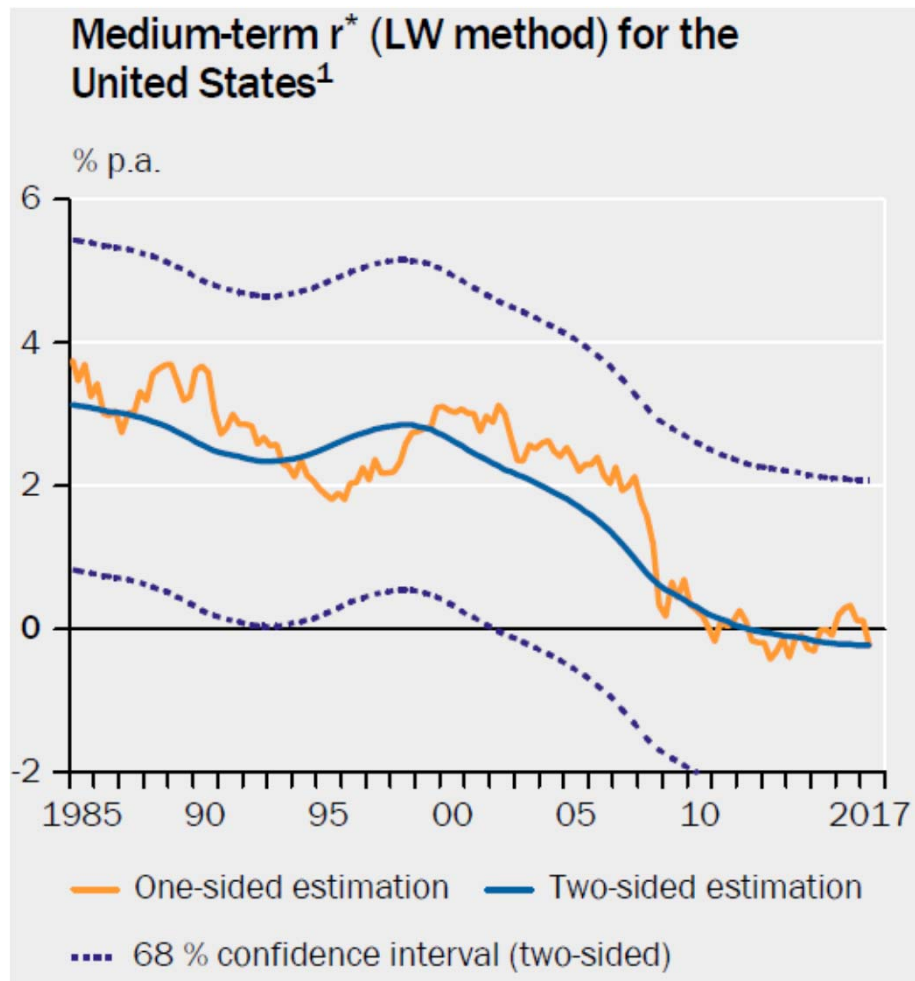
On the way to the new normal

Volker Wieland

GCEE Member and IMFS, Goethe University Frankfurt

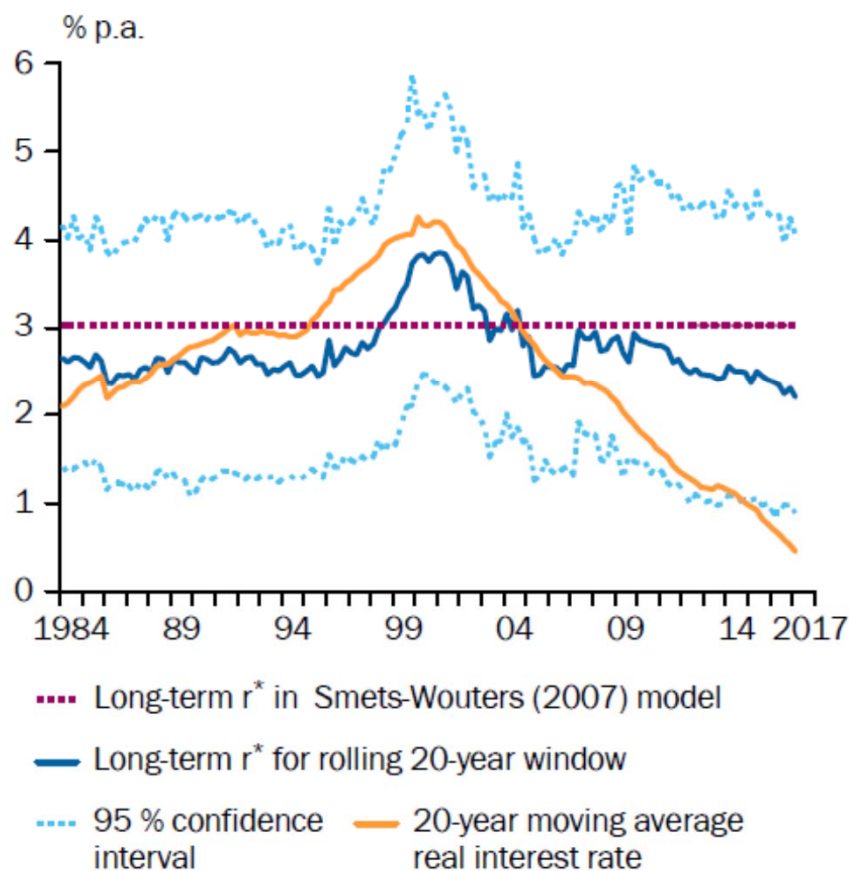
Global Interdependence Center, SUERF -The European Money and Finance
Forum and Deutsche Bundesbank Conference – February 8, 2018

Laubach-Williams style medium-term equilibrium rate estimates - extreme uncertainty - decline not significant



Long-term equilibrium rate estimates from structural models have not declined that much: Low real rates partly due to policy.

Long-term r^* (Smets-Wouters model) for the United States

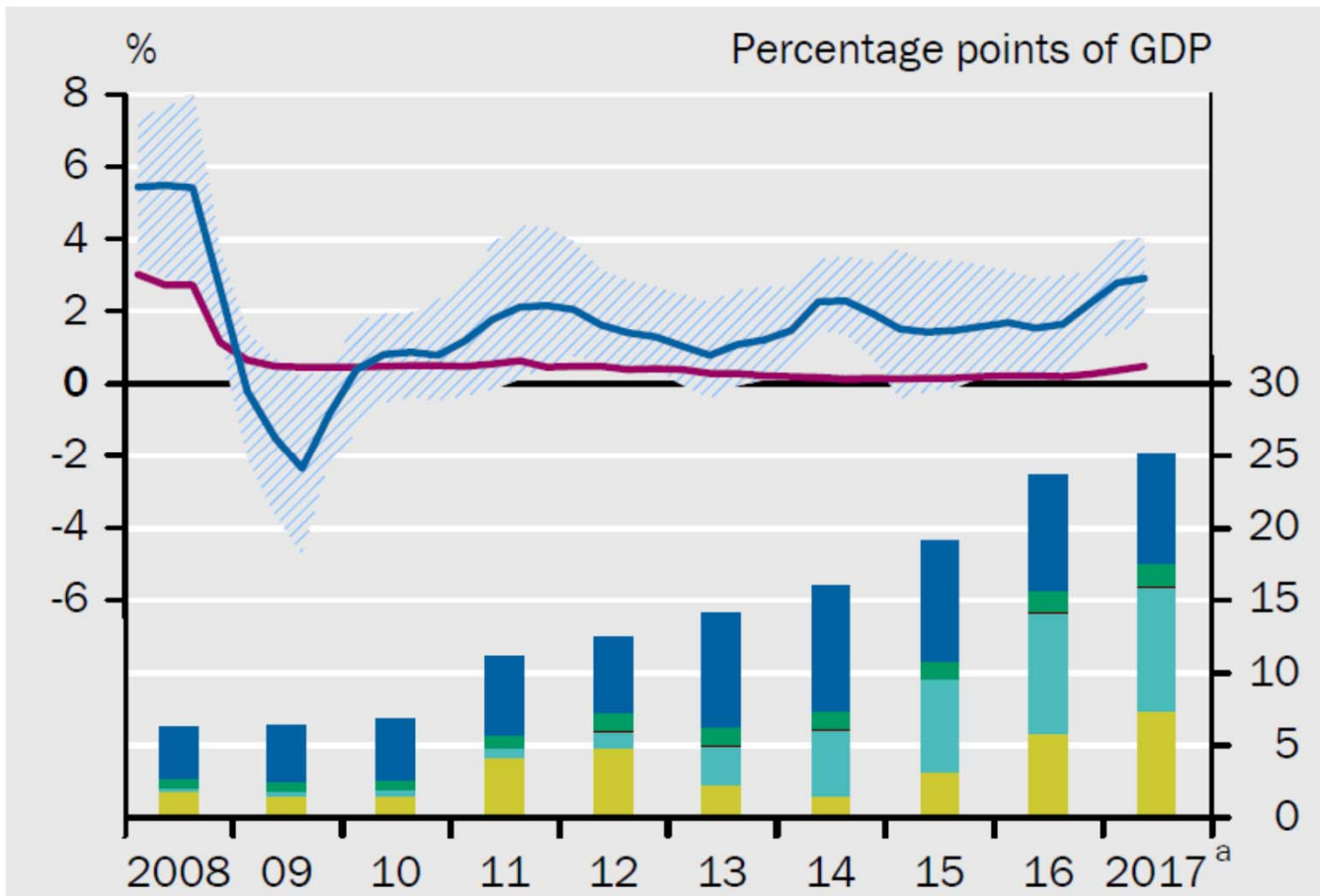


Contributions to the difference between average real interest rate and long-term r^* for the United States⁴

Total difference: $-1.75\% = 0.45\% - 2.2\%$

Shock	Contribution to difference
Technology	-0,09 %
Risk premiums	-0,48 %
Government expenditure	-0,04 %
Investment-specific	-0,24 %
Monetary policy	-0,83 %
Price markup	0,15 %
Wage markup	-0,01 %
Initial values	-0,22 %

Monetary policy in major advanced economies still very expansionary relative to reference rules



Change of central bank assets since 2007

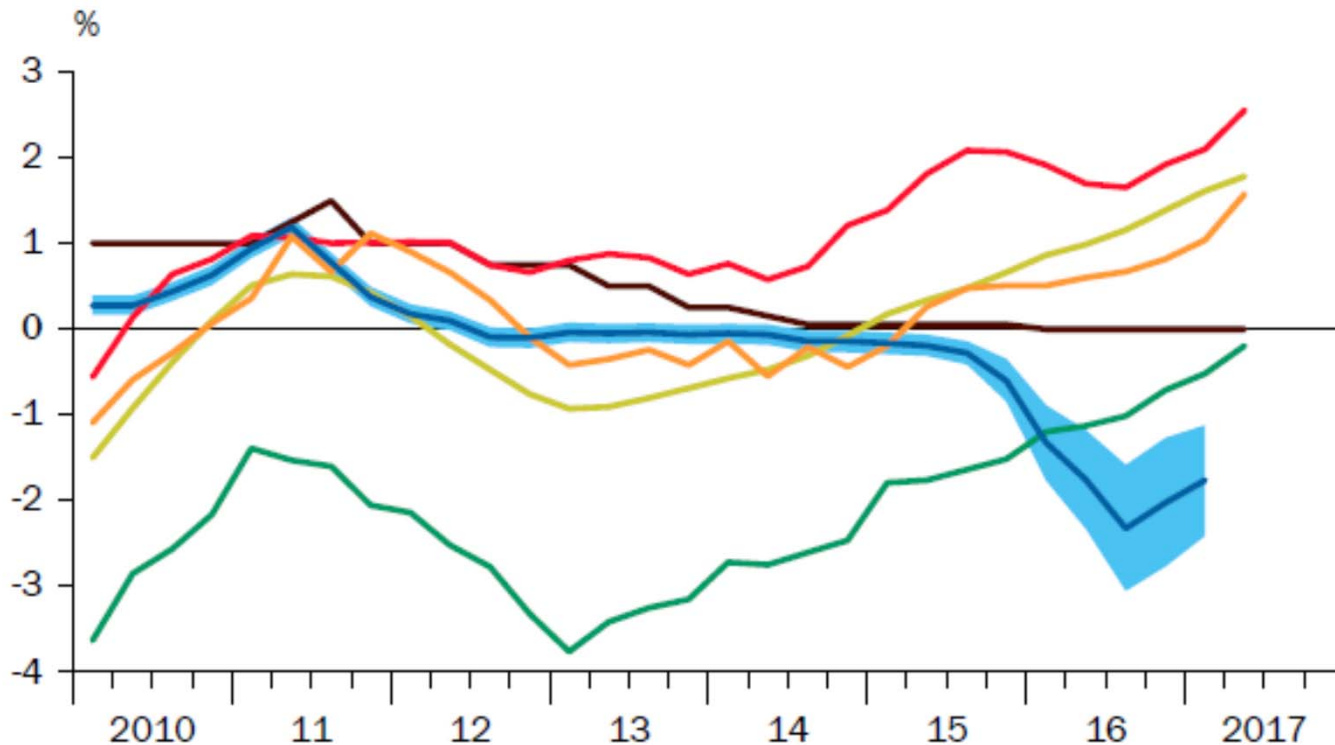
Euro-area, Japan, UK, Canada, USA

Policy rate relative to reference values

— weighted policy rates

— weighted Taylor rates

ECB: „lower for longer“ relative to Taylor rates



MRO Rate

Shadow rate

95% confidence interval


Ameco output gap

Medium-term output gap

Taylor rule with medium-term r^* and Ameco output gap

Consistent Taylor rule with medium-term r^* and output gap

Proposal: A strategy for monetary policy normalization



Symmetric reaction of the ECB on macroeconomic developments

- finish monthly asset purchases at an earlier stage
- then gradually raise key policy rates
- reduce longer-term asset holdings

Forward guidance: forecast regarding

- future development of asset purchases, reinvestments and key policy rates
- as well as the sequence of these measures

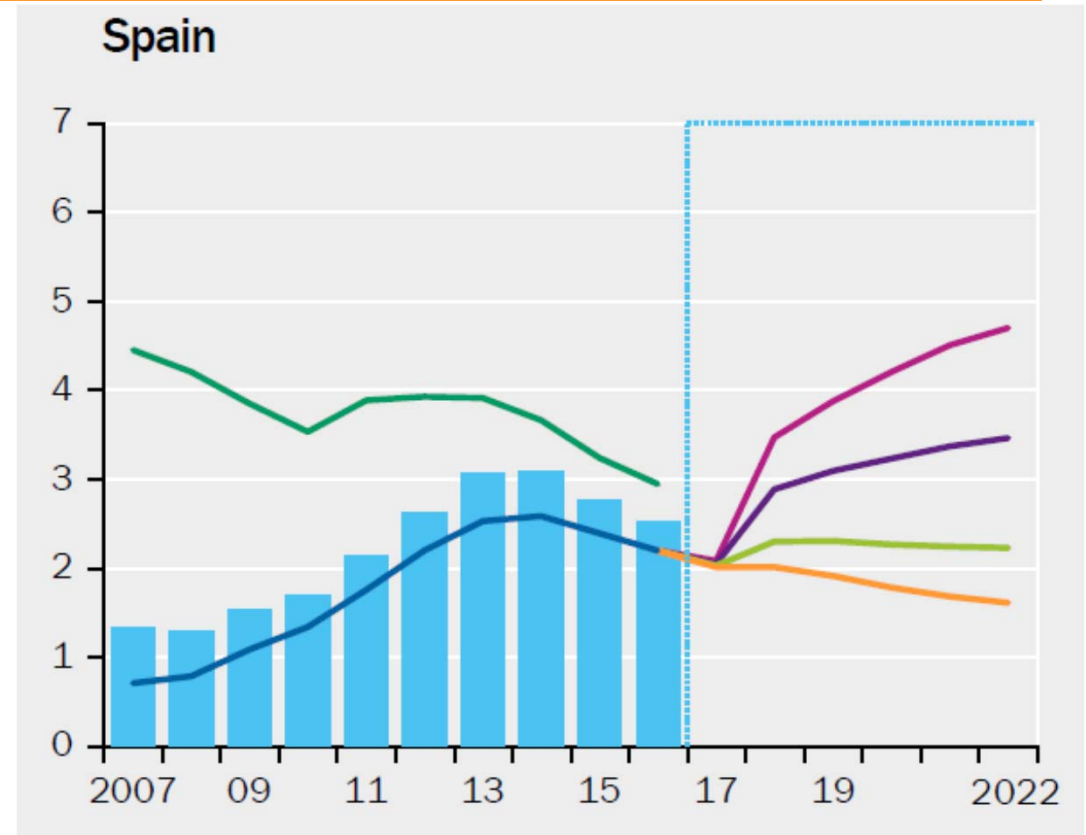
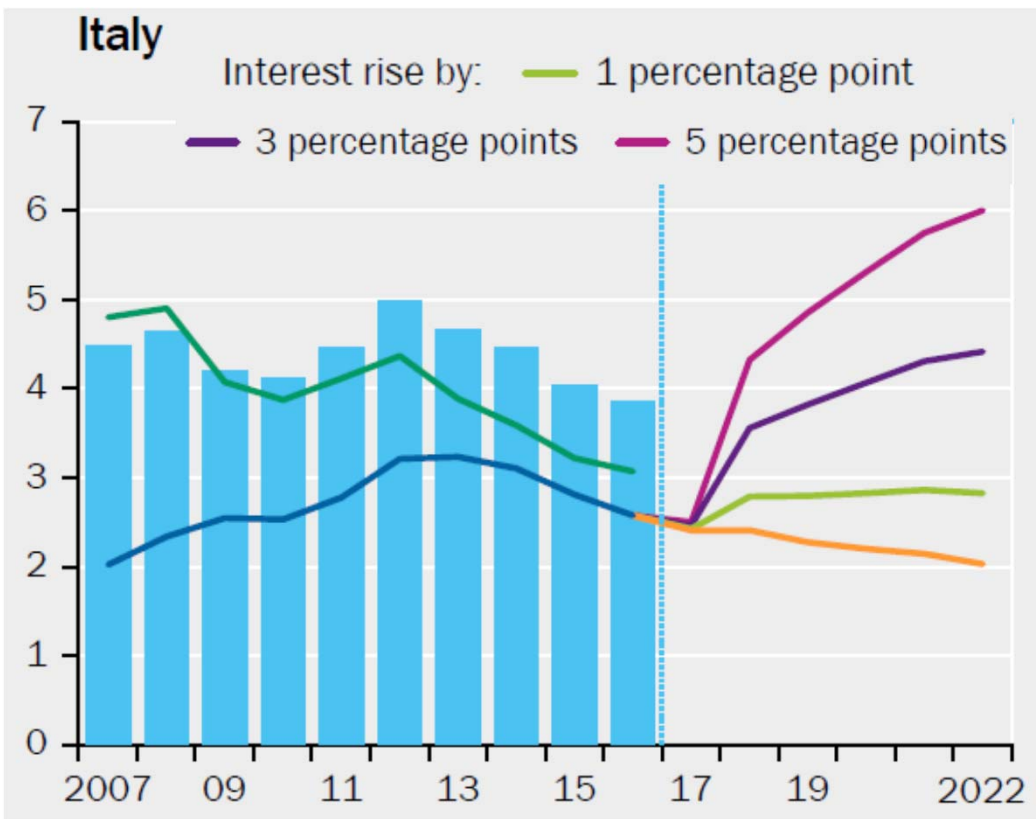
Comprehensive forecast of the future monetary policy

- publish quantitative forecast on the expected path of asset purchases and key policy rates
- alternatively: publish individual council member forecasts similar to the Federal Open Market Committee of the Fed
- improve Eurosystem staff's forecast by means of own interest rate forecast

Expand communication to

- reduce disruptions on financial markets in the course of monetary policy normalisation and
- avoid the risk of fiscal and financial dominance

Effect of increase in yield curve on sovereigns interest expenditures



— Interest expenditures from 2002 for newly issued government bonds² — Arithmetic average interest rate (% p.a.)³
■ Interest expenditures, total⁴ — Base scenario⁵ Simulation period⁶