

The Policy Trilemma and the Global Financial Cycle: Evidence from the International Transmission of Unconventional Monetary Policy

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What the paper does & short summary

1 Research agenda

- Compare spillovers from conventional (CMP) and unconventional (UMP) US monetary policy shocks.
- Test whether spillovers are different across country groups (advanced / emerging) or depend on the exchange rate regime of the country.

2 Methodology

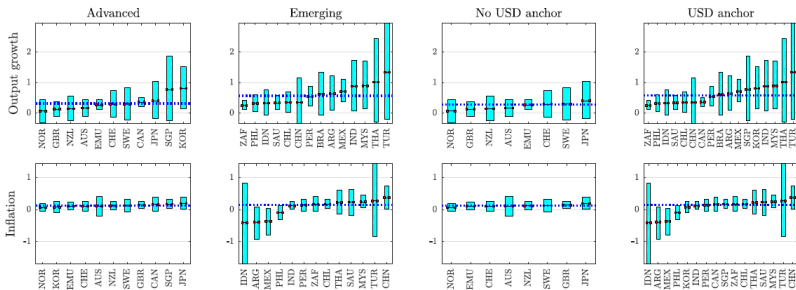
- Global vector-autoregressive (GVAR) model estimated over the period 1994Q1-2016Q4.
- Shocks identified via combination of zero & sign restrictions (Baumeister and Benati, 2013).

3 Findings

- US shocks trigger large international effects (not surprising).
- No significant difference of spillovers to emerging and advanced economies.
- To model spillbacks to the US economy makes important difference (amplify effects).

Paper suffers from inconclusive inference

Figure 12: Conventional monetary policy: country level effects & characteristics



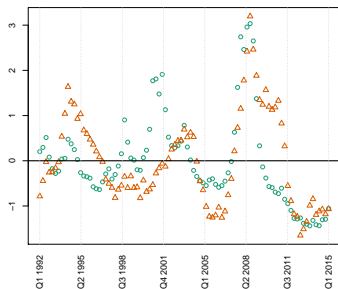
- **Suggestion I:** Calculate IRFs / statistics for the different country groups and see whether their confidence bounds overlap (as e.g., in Bluwstein and Canova, 2013).
- **Suggestion II:** Provide measures of uncertainty for all statistics you use (e.g., peak values, scatter plots).

Technical comments - Estimation uncertainty

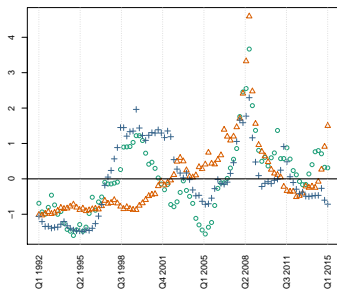
- Estimation is carried out with **simple OLS** and without explicitly identifying cointegration relationships.
- Authors use most parsimonious specification with $p = q = 1$ lags but still have to estimate about 120 parameters per country \Rightarrow **highly parametrized model**.
- **Shrinkage estimators** provide some regularity, for Bayesian treatments in GVARs see e.g., Crespo et al. (2016).
- GVAR offers possibility to include **different variables** for different countries - a look at the variables used in the literature on VARs **for emerging markets** (=highest estimation uncertainty) could improve results. Private credit?
- Why output in growth rates? Stability issues?

Technical comments - Stochastic volatility

Feldkircher and Huber (2018)



○ Short-term interest rate △ Term spread



○ Real GDP △ CPI Inflation + Wealth

- **Ample** (forecasting) **evidence** for **stochastic volatility** in **macroeconomic VARs** (see e.g., Cogley and Sargent, 2005, Clark and Ravazzolo, 2015, Carriero and Clark, 2016, Chan and Eisenstat, 2018)

Economic comment - Identification

1 Monetary policy & the zero lower bound (ZLB)

- Baumeister and Benati (2013) use a time-varying parameter VAR (with stochastic volatility), but **still no CMP shocks during ZLB and no UMP shocks before.**
- Kimura and Nakajima (2016) identify CMP and UMP shocks making the case that central bank policy switches between the two modes of operation in case the policy rate gets stuck at the ZLB.
- Shadow rate and time-varying parameter GVAR (Crespo et al., 2018), no switch in identification, no switch in policy instrument required.

2 Term spread as measure of UMP

- In USA, Clinton debt buyback program in early 2000s moved term spreads as if UMP.
- Kurmann and Otrok (2016) \Rightarrow term spread to large extent driven by news shocks about total factor productivity.
- Comparison to Burriel and Galesi (2018), identification via exogenous variation in the central banks' balance sheet?
- GVAR offers possibility to put restrictions on the cross-section.

Economic comment - Placing the paper

1 GVAR literature on US shocks

- Georgiadis (2016) ✓
- Chen et al. (2016), corporate and term spread shocks, larger spillovers to EMEs.
- Feldkircher and Huber (2016), interest rate shock; cross-country differences emerging and advanced economies.
- Hajek and Horvath (2018), weaker effects of CMP than UMP.
- Crespo et al. (2018), time-varying parameter GVAR, weaker effects of US MP during zero lower bound period; **strong (time-varying) effects on equity prices.**

2 Event-study literature on US shocks

- Fratzscher et al. (2016), QE announcement effects on **portfolio flows** (especially on EMEs).
- Rogers 2014, **large effects on int. asset prices**, US shock triggers stronger spillovers than EA / UK / JP shocks.
- Rogers 2018, disentangle interest rate / asset purchase / forward guidance shocks; significant effects on int. exchange rates.

Summing up

- + Paper discusses important and relevant topic.
- + Paper is clearly structured and easy to follow.
- + Full specification / no-spillback / direct effect analysis yields interesting results \Rightarrow US MP rule should include foreign factors (contrasts results in Rogers, 2014).
- Estimation & identification could be improved to sharpen inference.
- Placement in the literature; connection to global financial cycle?

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