Comments of "Direct and Spillover Effects of Unconventional Monetary and Exchange Rate Policies"

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Discussion on "Direct and spillover effects of unconventional monetary and exchange rate policies"

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Annual Research Conference (IMF)

November 6, 2015

Questions

- What are the effects of unconventional monetary policy on the current account?
- What are the effects of unconventional exchange rate policy on the current account?
- What are the effects of U.S. unconventional policy announcements on foreign financial prices?

Answers

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- Official purchases of NFA:
  - large positive effect on current account when capital mobility is low
  - effect becomes smaller (but remains significant) as capital mobility rises

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- A simple sticky prices model (with no imperfect substitution) can explain their "puzzling" QE results
- You do need imperfect substitution if you want an independent role for M and i
- Forex intervention also has effects even under perfect asset substitution

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- With imperfect capital mobility, the current account would change

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- Central Bank can control M and i^z (QE and interest rate policy!)
- But effects of M would be very similar to previous model

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  - Countries sell forex to avoid too much depreciation bad times

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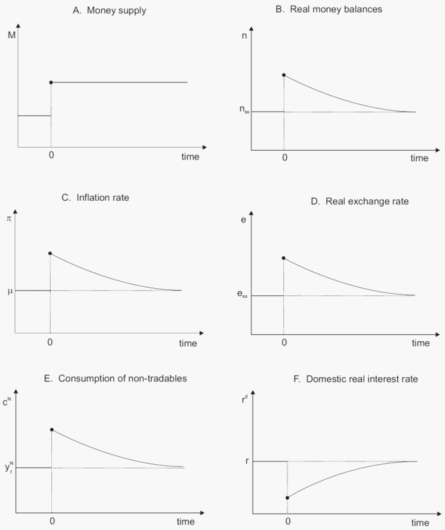
- More thought needs to go into interpreting results

Figure 2. Permanent increase in money supply



Fall in world real interest rate ◂ back