Discussion of Panizza and Wyplosz:

The Folk Theorem of Decreasing Effectiveness of Monetary Policy: What Do the Data Say?

Jesper Lindé

IMF

Disclaimer: Any views expressed in these remarks are solely my own and should not be interpreted as reflecting the views of the IMF or those of any other person associated with the IMF.

Summary of paper - I

- Increasing concern that efficiency of UMP has fallen over time, when CB balance sheets have grown big and policy rates are expected to remain low for very long time.

- This paper approaches this issue from two angles.

- First, it discusses an exhaustive list of channels whereby UMP may have lost some of its stamina.

- Second, the paper assesses empirically if effects of UMP – measured by shadow rates (Wu and Xia, 2014) and QE announcements (Weale and Wieladek, 2015) – have fallen over time.

Summary of paper - II

- The authors study the effects of UMP with two alternative methods:
  - Jordàs (2005) projection method.
  - Bayesian VAR methods (following Weale and Wieladek, 2015).
- Their evidence is a mixed bag:
  - Evidence for shadow rates indicate that potency of UMP has fallen over time.
  - However, QE announcements do not lend support to the decreasing effectiveness hypothesis.
- So no clear cut answer.

Discussion outline

- Delphic vs. Odyssean view of UMP.
  - Endogeneity of policy instruments.
- A few comments on the empirical results.
- Swedish case study: The transmission from policy rates to market and end-user interest rates near ELB.
- Time- vs. state-dependencies in determining effectiveness of UMP.

Delphic vs. Odyssean view of UMP

- Need to understand why shadow rates move.
- "Delphic view": movements in shadow rate simply reflect macroeconomic fundamentals and CB BAU.
- "Odyssean view": movements in shadow rates largely driven by unusually stimulative monetary policy.
- Campbell et al. (2016) argue that Delphic component large in Fed communication before August 2011, but more Odyssean elements thereafter.

Delphic vs. Odyssean view of UMP II

- Paper: Essentially all movements in Shadow rate Odyssean.
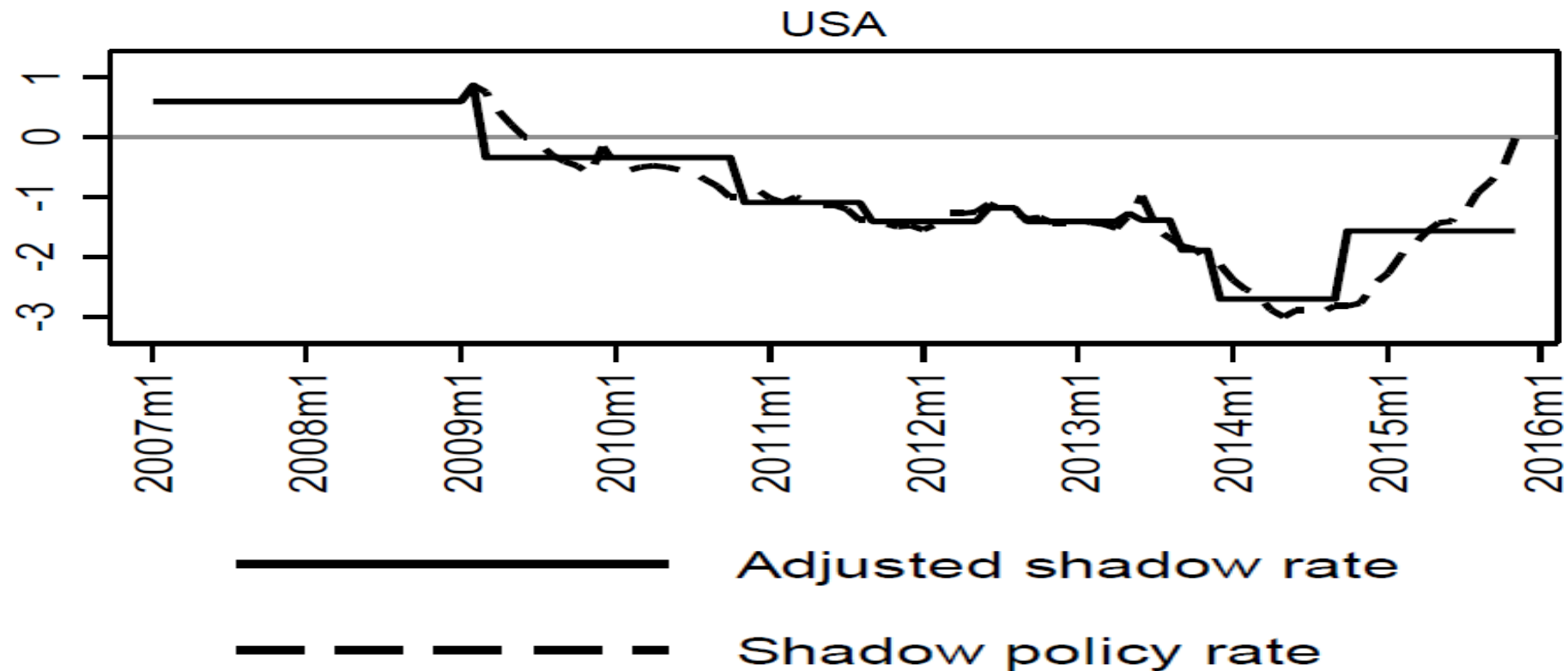
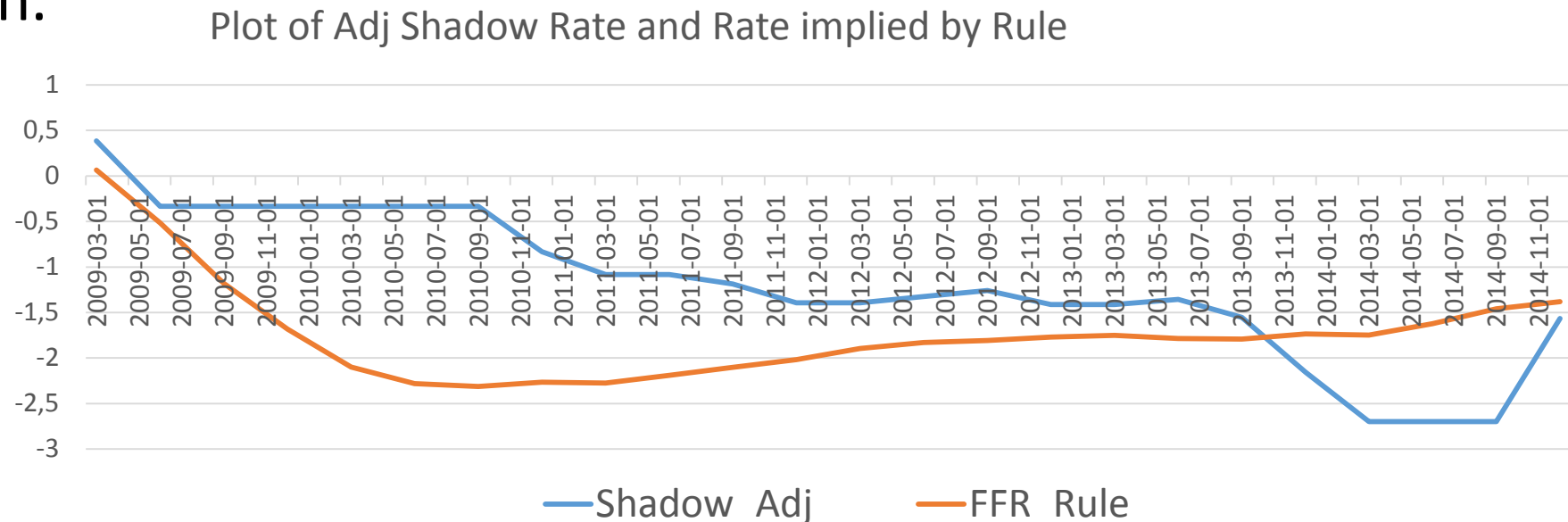# Delphic vs. Odyssean view of UMP III

- Treatment of adjusted shadow rate as policy shocks is a bit of a stretch.
  - Should bias results towards finding small effects of UMP, but not necessarily a problem for paper if bias time-invariant.
- But is the bias constant? Useful to think about ways to tease out endogenous component from the shadow rate.
  - An obvious candidate is to compute the difference between shadow rate and an interest rate implied by a standard policy rule.

Delphic vs. Odyssean view of UMP IV

- Example, United States. Project FFR 2009Q1-2014Q4 with a policy rule close to Taylor (1999):

$$FFR_t = (1 - 0.90)\left(4 + 2\left(\pi_t^{ann} - 2\right) + x_t^{cbo}\right) + 0.90 FFR_{t-1}$$

- Delphic component in shadow rate time-varying – introduce biases in estimation.

Plot of Adj Shadow Rate and Rate implied by Rule

Delphic vs. Odyssean view of UMP V

- As far as I can tell, also the QE annoncements compiled by Weale and Wieladek (2015) are plagued by the same endogeneity issue as the shadow rate.
  - So BVAR approach preferable to Jorda regressions from this perspective.

Comments on the Results

- Would encourage the authors to discuss if their pre-crisis evidence square with "consensus view" on the monetary transmission mechanism.
  - Build credibility for your sub-sample results.
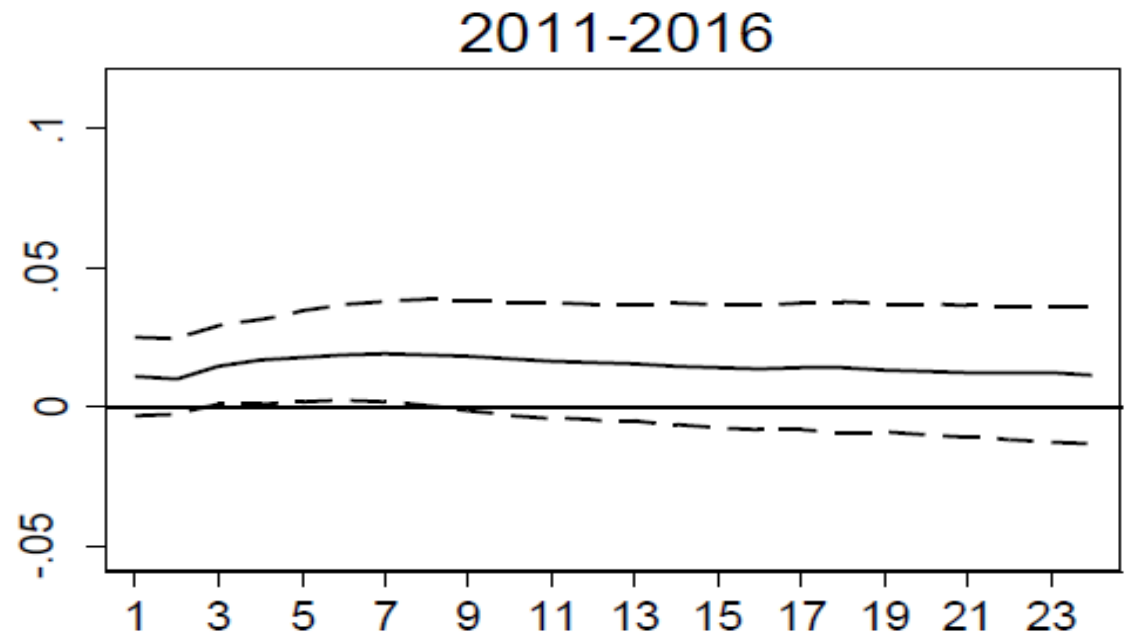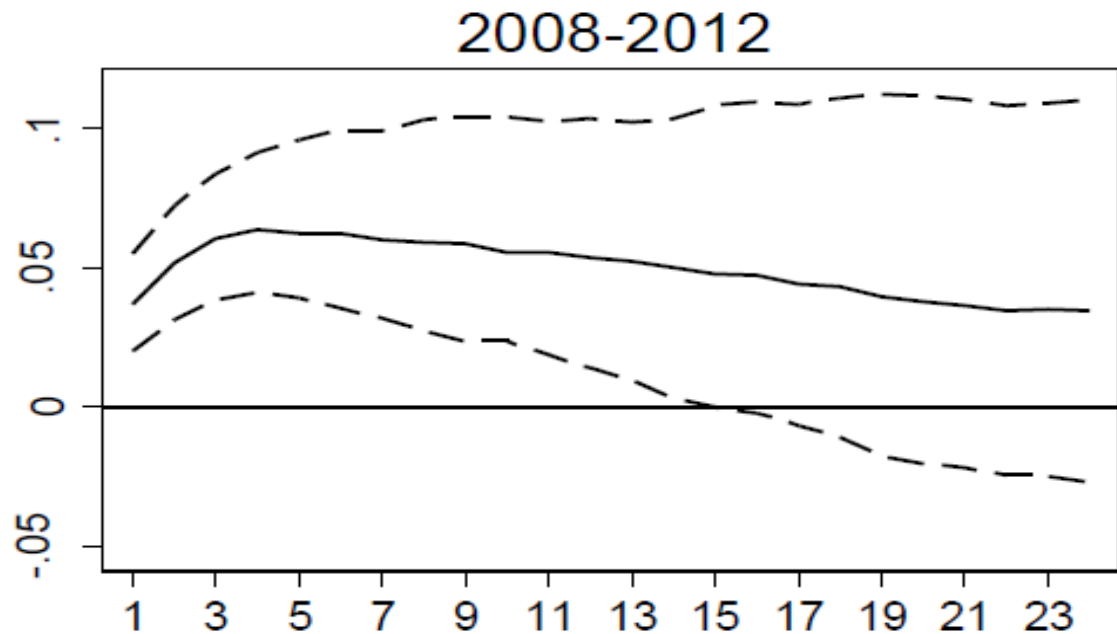
Comments on the Results II

- US pre-crisis results (cond. on a 1 p.p. init. cut in FFR):

- Jordà – adj shadow rate   BVAR – adj shadow rate

Above ZLB

1995-2008
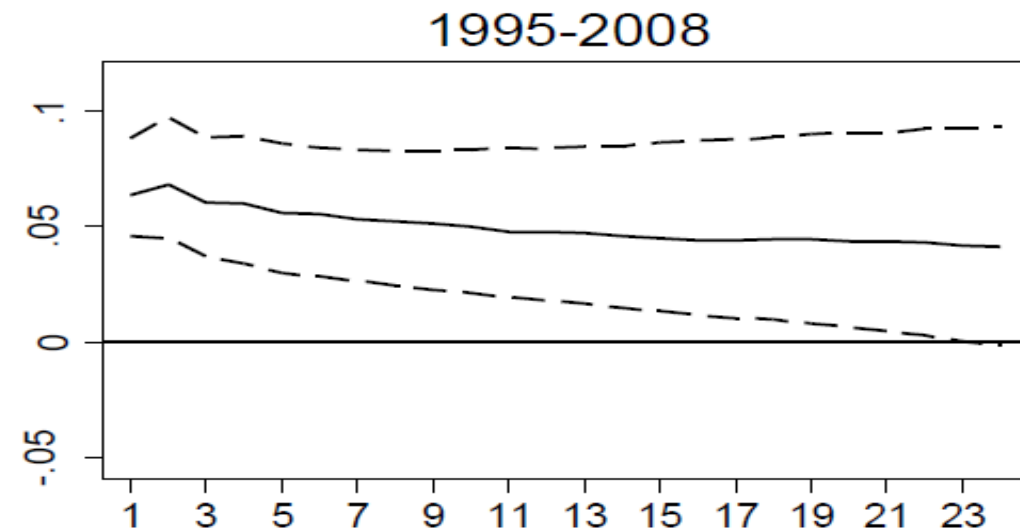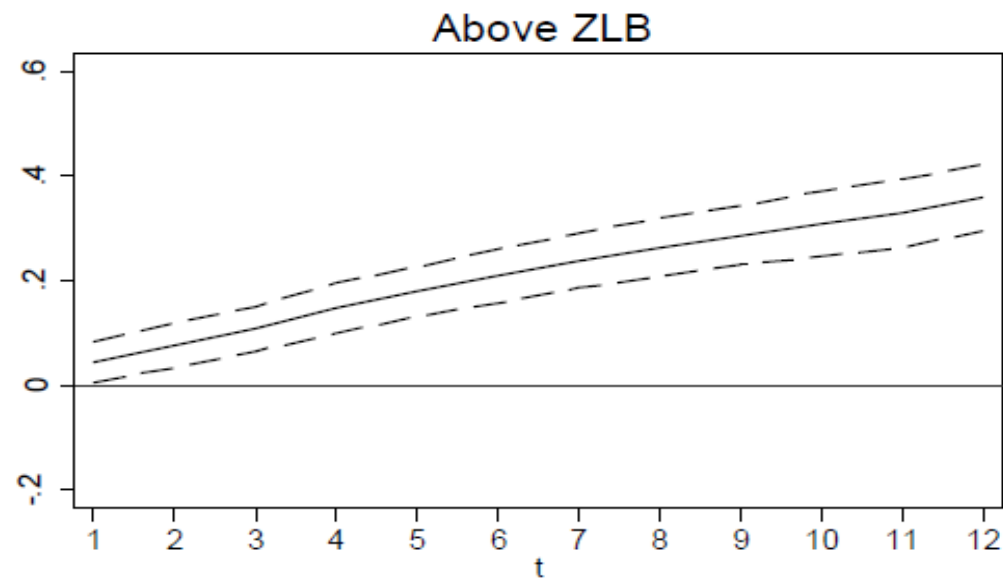
- Much smaller effects than conventional view, e.g. CEE which reports GDP rises 0.6% after a persistent cut in FFR with 1%.

Comments on the Results III

- Reporting impulses for policy instruments essential when assessing if UMP has lost some of its potency.
  - Can't tell if impulses differ unless we know shadow rate paths.
- BVAR – US GDP response to init. shadow rate shock of 1 p.p.
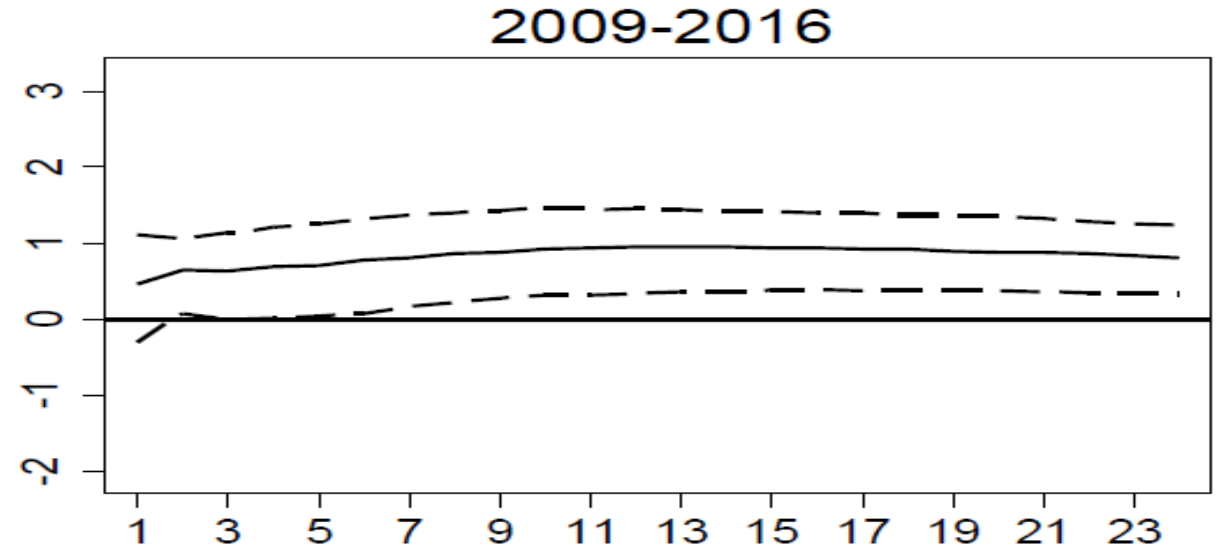

2008-2012

2011-2016

Comments on the Results IV

- Finally, how come that BVAR results for GDP is an order of magnitude smaller for shadow rates than QE?
  - Need to understand why. Does QE announcements have a larger impact on long-term yields?
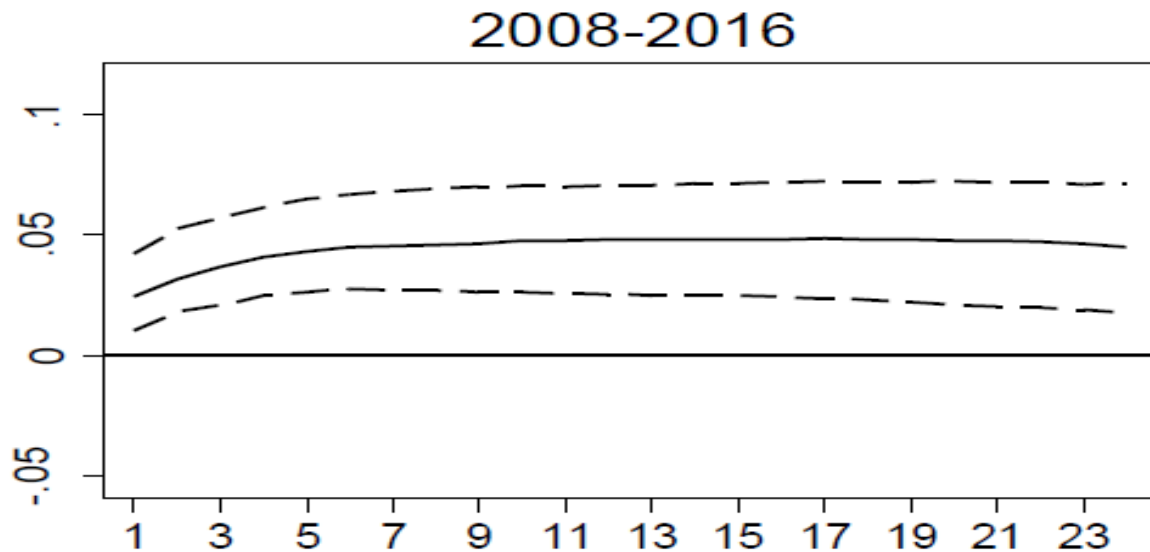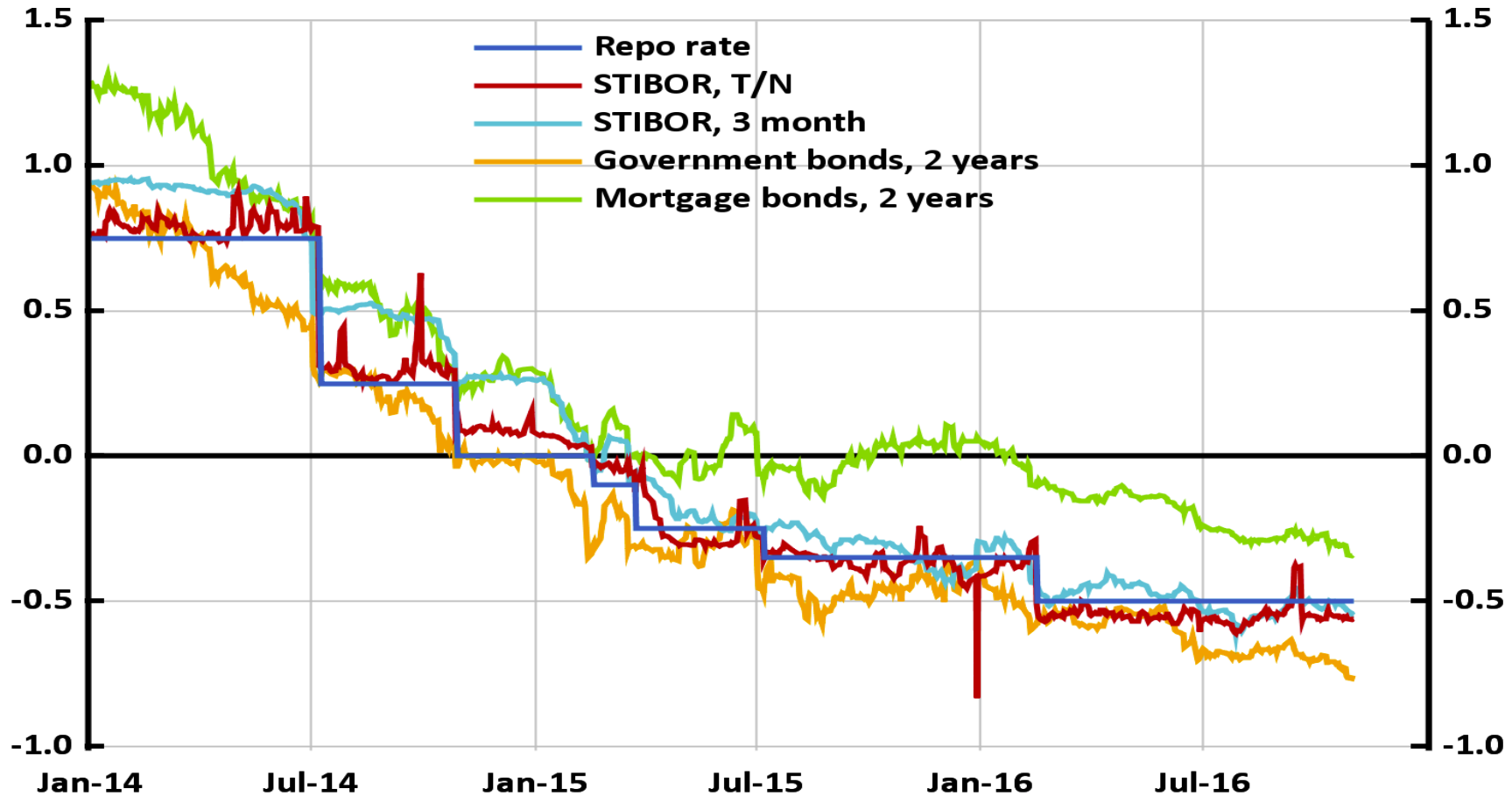
- US BVAR – Shadow rate   US BVAR – QE

Case Study: Sweden

- Study the transmission of low and even negative policy rates to market and end-user interest rates.
- Bottom lines:
  - No difference in impact on market rates between normal and "mildly negative" interest rates.
  - But there is evidence of somewhat lower pass-through to lending rates for end-users (households and firms); likely reflecting ZLB on interest rates for their deposits.
  - Lend some, but not strong evidence for authors findings.

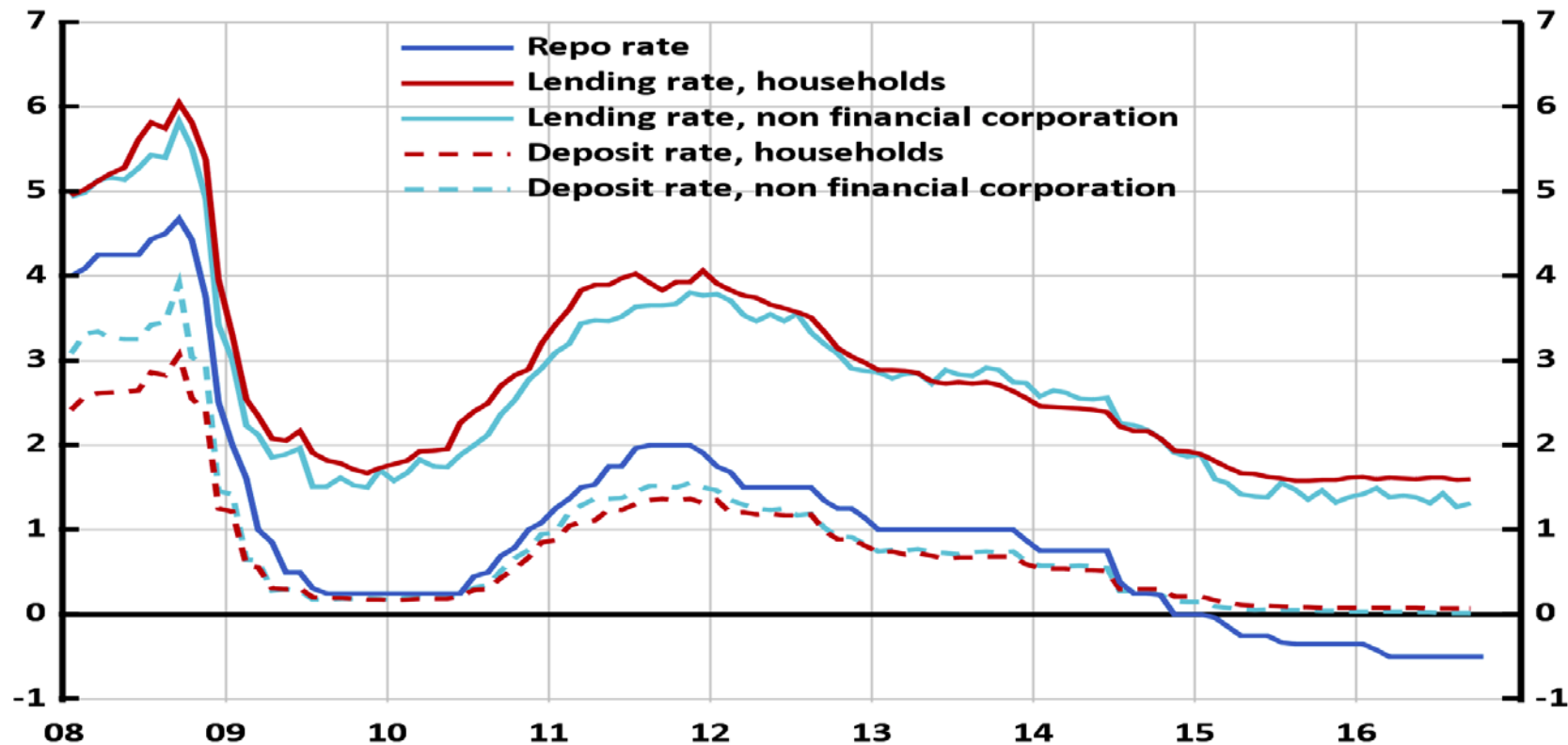# Case Study: Sweden II

Normal pass-through to market rates

Per cent

Legend:
- Repo rate
- STIBOR, T/N
- STIBOR, 3 month
- Government bonds, 2 years
- Mortgage bonds, 2 years

Case Study: Sweden III

Pass-through to Bank lending rates slightly lower than normal, deposit rates stopped at zero

Per cent

Legend:
- Repo rate
- Lending rate, households
- Lending rate, non financial corporation
- Deposit rate, households
- Deposit rate, non financial corporation

Time- vs. State-dependencies

- The authors splice data in the time-dimension, but recognize that the state (e.g. compressed term-premias) may be what really matters.
  - Tenreyro and Thwaites (2016): argue MP less powerful in recessions.
  - Haldane et al. (2016): evidence for the US that effectiveness of QE depends on state of the economy and liquidity of financial system.
- It would be interesting to think about exploiting the cross-country dimension of the dataset to look into state-dependencies of UMP.

Concluding thoughts

- Very important analysis – further work in this area needed (and is happening).

- If UMP less effective, then coordination between monetary and fiscal policies may be very important to stimulate growth in this challenging environment, see e.g. Gaspar, Obstfeld, Mancini Griffoli (2016) and Sims (2016).