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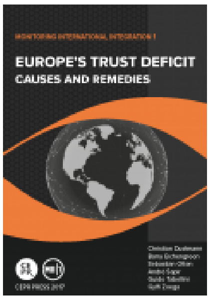
SELECTED REPORTS AND EBOOKS



Europe's Trust Deficit: Causes and Remedies

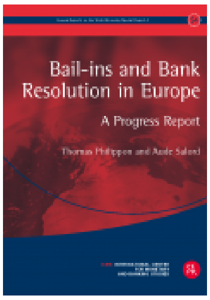
Christian Dustmann, Barry Eichengreen, Sebastian Otten, André Sapir, Guido Tabellini, Gylfi Zoega 23 August 2017

This first report in the Monitoring International Integration series identifies economic and social characteristics associated with Europe's growing trust deficit in some EU countries, as well as factors associated with support for non-mainstream political parties and movements labelled as 'anti-EU'.

DSGE Models in the Conduct of Policy: Use as intended

Refet Gürkaynak, Cédric Tille 28 April 2017

Dynamic stochastic general equilibrium (DSGE) models are in wide use yet have come under sharp criticism, given their complex nature and the assumptions they rely on. However, many central banks use them in policy analysis. Is this a misguided use of economists' and policy makers' time? This eBook reviews the use of DSGE models in policy institutions, the lessons learned, and the desirable ways forward.



Bail-ins and Bank Resolution in Europe: A Progress Report

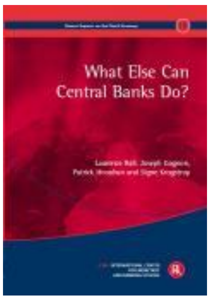
Thomas Philippon, Aude Salord, 22 March 2017

The 4th Special Report in the Geneva Reports on the World Economy series reviews the current status of bail-ins and bank resolution in Europe. It provides a critical comparison of the US and EU bank resolution rules, examines European banking failures, and makes a number of policy recommendations concerning governance, stress testing, cross-border issues and resolution of financial contracts.

Crisis, Credit and Resource Misallocation: Evidence from Europe during the Great Recession

Biswajit Banerjee, Fabrizio Coricelli, 08 February 2017

The chapters in this eBook analyse the behaviour of bank credit in Europe during the Great Recession and the subsequent recovery, drawing on research presented at the first conference of the European Central Banking Network (ECBN) held in Ljubljana in September 2015.



What Else Can Central Banks Do?

Laurence Ball, Joseph Gagnon, Patrick Honohan, Signe Krogstrup 02 September 2016

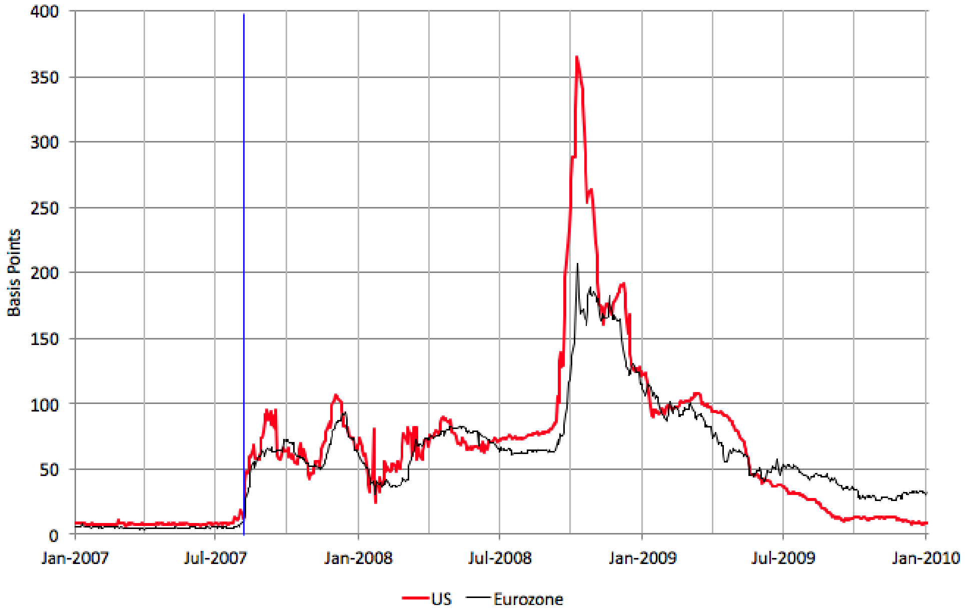
The latest Geneva Report on the World Economy argues that central banks can do more to stimulate economies and restore full employment when nominal interest rates are near zero. Quantitative easing and negative interest rates have had beneficial effects so far and can be used more aggressively, and the lower bound constraint can be mitigated by modestly raising inflation targets.

The financial crisis, ten years on

Stephen Cecchetti, Kim Schoenholtz, 29 August 2017

There is still a notable lack of consensus over when exactly the 2007-09 financial crisis started. This column argues that the crisis began on 9 August 2007, when BNP Paribas announced they were suspending redemptions. In 2007, the US and European financial systems lacked two key shock absorbers: adequate capital to meet falls in asset values, and adequate holdings of high-quality liquid assets to meet temporary liquidity shortfalls. Lacking these, the financial system was vulnerable to even relatively small disturbances, like the BNP Paribas announcement.

Figure 1 Three-month LIBOR-OIS interest rate spreads (basis points), 2007-2009



Note: Vertical blue line denotes 9 August 2007 (BNP Paribas announcement).
Source: Bloomberg.

Investment and growth in advanced economies: Selected takeaways from the ECB's Sintra Forum

Vítor Constâncio, Philipp Hartmann, Peter McAdam, 23 August 2017

The European Central Bank's 2017 Sintra Forum on Central Banking built a bridge from the currently strengthening recovery in Europe to longer-term growth issues for, and structural change in, advanced economies. In this column the organisers highlight some of the main points from the discussions, including what the sources of weak productivity and investment are and what type of economic polarisation tendencies the new growth model seems to be associated with.

Don't blame the global financial cycle

Andrew Rose, 14 August 2017

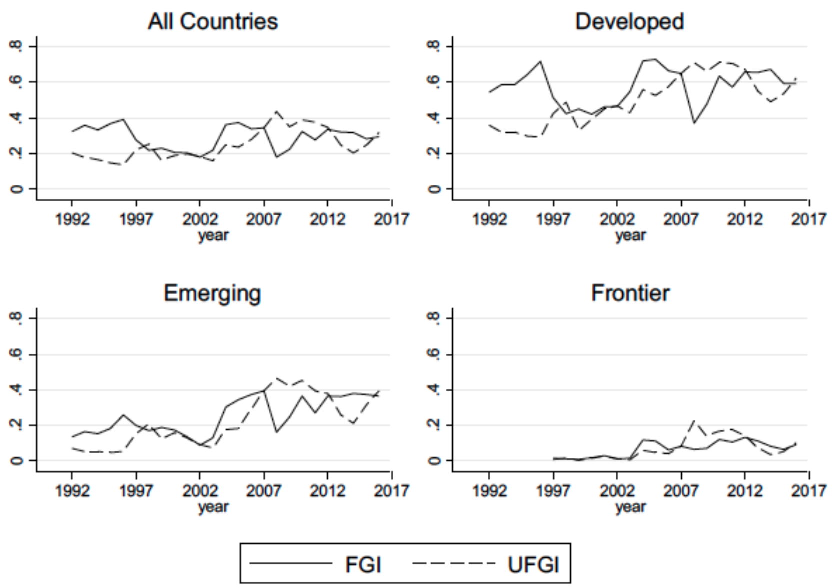
Policymakers in small countries fear the 'global financial cycle' that is apparently driven by US fundamentals. This column argues, in contrast, that 25 years of financial data show that the global financial cycle has explained at most a quarter of the variation in capital flows in these countries. This result gives more wiggle room for small-economy policymakers, but it also means they cannot realistically blame the global financial cycle for domestic economic problems.

Financial globalisation and market volatility

Tito Cordella, Anderson Ospino, 14 August 2017

While some studies suggest that financial globalisation increases volatility and leads to economic instability, others appear to show that it leads to more efficient stock markets, with higher returns but no increase in volatility. Using a new measure of financial globalisation, this column argues that, on average, it has no significant effect on stock market volatility in developed markets, but it decreases volatility in emerging and frontier markets, where domestic shocks are likely to play a relatively greater role.

Figure 1 FGI (adjusted Financial Globalization Index) versus UFGI (Unadjusted Financial Globalization Index)



Source: Authors' computation using Datastream.

The portfolio rebalancing effects of the ECB's asset purchase programme

Giovanna Bua, Peter Dunne, 10 August 2017

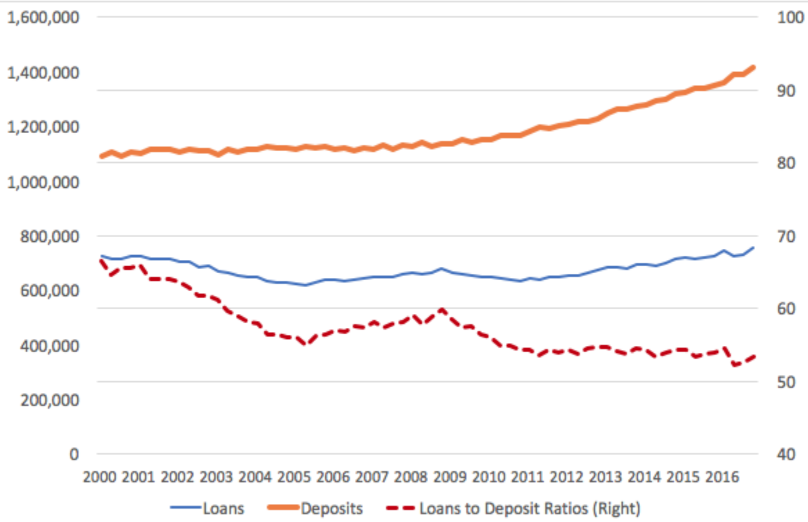
By the end of April 2017, the Eurosystem's balance sheet contained €1.8 trillion of assets, mainly as a consequence of asset purchase programmes. This column analyses the portfolio rebalancing effects of the ECB's programme. The original holders of the assets eligible for purchase by the ECB mainly purchased bonds of deposit-taking corporations outside the Eurozone. Investment funds and their investors did not rebalance significantly toward Eurozone equities or corporate bonds. While exchange rate and cost of capital effects are positive outcomes from the programme, local rebalancing effects appear to be non-existent.

The Bank of Japan's monetary easing and portfolio rebalancing channel

Sayuri Shirai, 31 July 2017

Portfolio rebalancing through large-scale asset purchases is one of the major transmission channels under the zero lower bound. This column assesses whether the channel has been effective in Japan, focusing in turn on financial institutions, firms, and households. Japanese firms and households are notoriously risk averse, limiting the effectiveness of the portfolio rebalancing channel. These results suggest that more drastic structural reforms and growth strategies are needed.

Figure 1 Loans, deposits, and loans: Deposit ratio of depository corporations, (billion yen, %)



Source: Flow of Funds, Bank of Japan.

Completing EMU

Marco Buti, Servaas Deroose, José Leandro, Gabriele Giudice, 13 July 2017

Despite much being done to strengthen the Economic and Monetary Union, it remains incomplete and this is one of the main reasons for the Eurozone's lacklustre economic performance in the recent years. While there are still diverging views on how to "cross the river", there is also a political and economic window of opportunity to complete the EMU architecture. This column discusses the ideas presented in a new European Commission Reflection Paper aimed at relaunching the debate on how to move forward, with a focus on bridging the differences between the member states that stress responsibility and risk reduction and those calling for solidarity and risk sharing.

Central bank communication strategies

Yosuke Takeda, Masayuki Keida, 18 June 2017

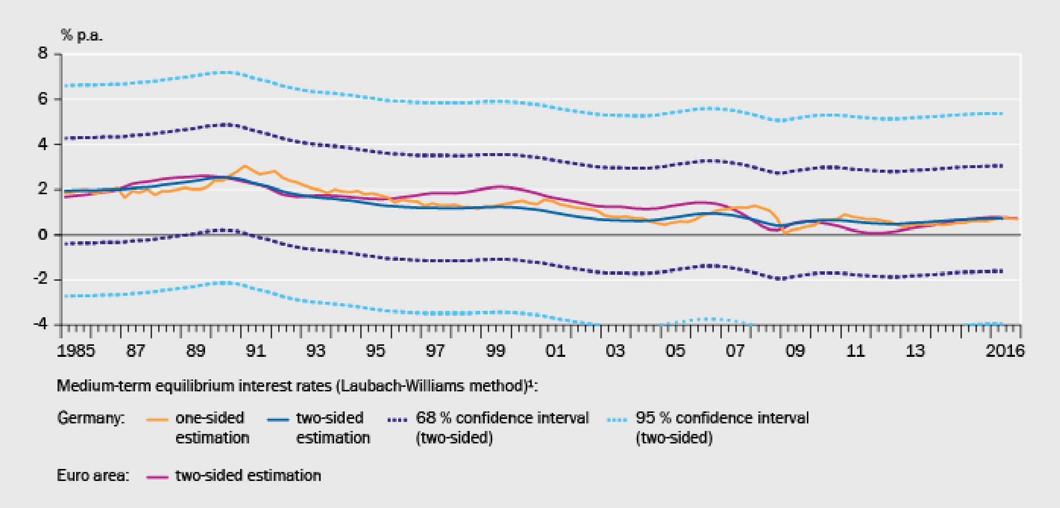
Communication strategies have become a policy instrument used by central banks to control expectations. This column uses a natural language processing method to explore the Bank of Japan's communication strategy from July 2012 to November 2016, a period during which both Masaaki Shirakawa and Haruhiko Kuroda held office. The analysis suggests that since 2016, when the Bank introduced a negative interest rate policy, Kuroda's communication strategy has changed implicitly.

R-Star and the Draghi rules

Henrike Michaelis, Volker Wieland, 12 May 2017

In recent speeches, Federal Reserve Chair Janet Yellen and ECB President Mario Draghi have attributed the Fed's and the ECB's low interest rate environment to low equilibrium rates rather than to Fed or ECB policies. This column argues that estimates of these equilibrium rates are extremely uncertain and sensitive to technical assumptions, and thus should not be used as key determinants of the policy stance. But if used nevertheless, a consistent application together with associated output estimates call for a tightening of the policy stance.

Figure 1 Estimates for medium-run equilibrium interest rates in Germany and the Eurozone



1 – Modified according to Garnier and Wilhelmsen (2009).

Sources: Beyer and Wieland (2017), own calculations

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Twenty years on: Is there still a case for Bank of England independence?

Ed Balls, Anna Stansbury, 1 May 2017

Until recently, the independence granted to the Bank of England 20 years ago had gone unchallenged. But the financial crisis has raised questions over whether central bank independence is necessary, feasible, and democratic. This column revisits the relationship between inflation and the operational and political independence of the central bank in advanced economies. The findings support the Bank of England model of monetary policy independence: fully operationally independent, but somewhat politically dependent. To make operational independence work, however, further reforms are needed to the model in both monetary–fiscal coordination and macroprudential policy.

The operation and demise of the Bretton Woods system

Michael Bordo, 23 April 2017

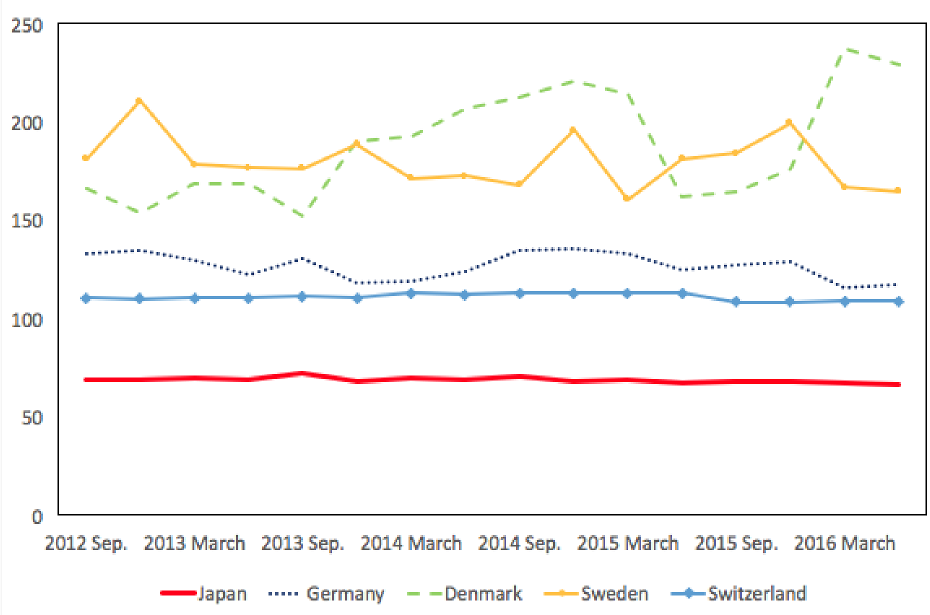
Beginning in 1944, the Bretton Woods system played a major role in shaping the global economy in the post-war period. This column describes how although it was successful in bringing about exemplary and stable economic performance in the 1950s and 1960s, familiar confidence and liquidity problems, as well as inflationary pressure and central bankers' responses to it, ensured that Bretton Woods was short-lived. Nonetheless, legacies of the system, like the dollar standard, remain with us and will likely be with us for some time to come.

Super-easy monetary policy and reflating Japan’s economy

Sayuri Shirai, 16 March 2017

The Bank of Japan has been pursuing quantitative and qualitative monetary easing since 2013, but has failed to achieve its target of a stable 2% inflation rate. This column explores the Bank’s recent practices and performance, and identifies four structural factors that have contributed to the limited impact of unconventional monetary easing on aggregate demand and inflation. The Bank now needs to come up with more objective projections for the timing of achieving its price stability target.

Figure 1. Loan-to-deposit ratio of major banks (%)



Source: S&P Capital IQ.

Assessing the threat to central bank independence

Jakob de Haan, Sylvester Eijffinger, 27 January 2017

It has been observed that since the start of the Global Crisis, central banks in most advanced economies have become more powerful and political, but they have not become more accountable. This column discusses why central bank independence matters, and looks at whether it has changed since the crisis.

Evidence on which aspects of central bank transparency matter

Anna Naszodi, Csaba Csavas, Szilard Erhart, Daniel Felcser, 27 January 2017

There is a notable lack of consensus about how central bank transparency affects uncertainty in the economy, as well as how transparency should be measured. This column reviews some recent contributions that highlight how transparency does not have consistent and unambiguous effects on economic uncertainty. Despite this ambiguity, transparency seems to be more often favourable than unfavourable.

The future of central bank independence

Wouter den Haan, Martin Ellison, Ethan Ilzetzki, Michael McMahon, Ricardo Reis, 10 January 2017

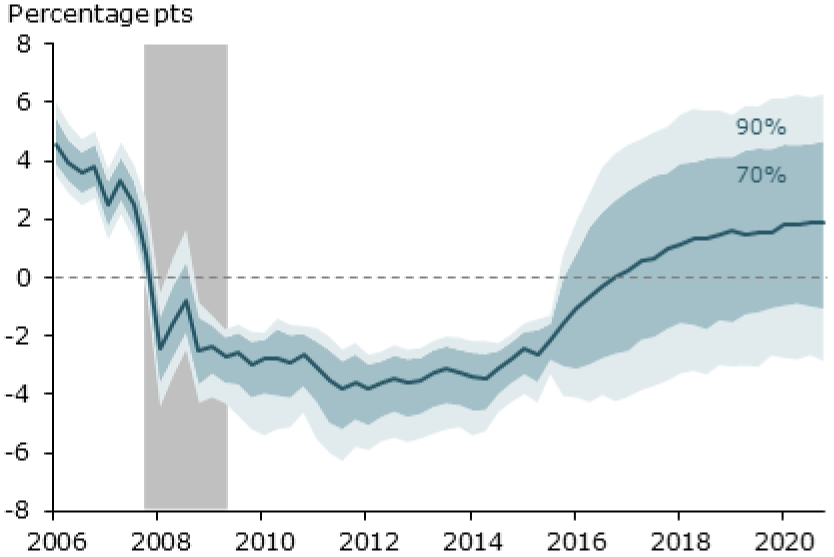
Over the past 30 years, most central banks across the advanced economies have been given the ability to conduct monetary policy independently from interference by fiscal and political authorities. The latest Centre for Macroeconomics and CEPR expert survey invited views on whether this era of central bank independence is drawing to a close, particularly in Europe. Only 31 of the 70 respondents disagreed with the statement that there will be significant changes in the independence of monetary policy in the UK and the Eurozone in the foreseeable future. The survey also reveals that the well-established proposition among economists that a reduction in central bank independence will lead to higher inflation is no longer taken for granted, but maintaining central bank independence remains desirable.

The natural rate of interest, its measurement, monetary policy and the zero lower bound

Alex Cukierman, 15 October 2016

The decline in long-term interest rates has nurtured the view of a persistent shift of the natural rate into negative territory. This column argues that existing estimates of the natural rate, based on the New Keynesian model, are likely to be biased downward. It makes a case for introducing long-term risky natural rates into the analysis of monetary policy, which could shed more light on the role of risk attitudes, the structure of financial institutions, and regulation in the determination of potential output and economic activity.

Figure 1. Curdia's estimates of the natural rate of interest (annual rate)



Note: Blue shaded areas represent the range of possible estimates with 70% (darker) and 90% (lighter) probability. Grey bar indicates NBER recession dates.
Source: Curdia (2015), Figure 1.

What else can central banks do?

Laurence Ball, Joseph Gagnon, Patrick Honohan, Signe Krogstrup, 2 September 2016

This column presents the latest Geneva Report on the World Economy, in which the authors argue that central banks can do more to stimulate economies and restore full employment when nominal interest rates are near zero. Quantitative easing and negative interest rates have had beneficial effects so far and can be used more aggressively, and the lower bound constraint can be mitigated by modestly raising inflation targets.