Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

FRAMEWORK DISCUSSION

• Propose a time-varying Financial Stability Orientation index
• How much the “Interest rate is expected to be oriented to FS”
  • 2000Q1-2014Q4
  • 10 Central Banks
• Financial stability affects interest rate decision in subsamples
• Heterogeneity
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

- FSO: constructed variable.

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>More Statutory – responsibility/legal mandate</td>
</tr>
<tr>
<td>Less Regulatory - MPP (smaller toolkit)</td>
</tr>
<tr>
<td>Financial stability citations when communicating MP decisions</td>
</tr>
</tbody>
</table>
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

One shouldn’t expect…

• In US (2000-2014, but 2008) and New Zealand (2000-2005) CB to pay much attention to FS when deciding $i_t$.

But should expect…

• Japan, Switzerland and UK to pay attention
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

ECONOMETRIC DISCUSSION

- \((\text{FSR}) = 1\) when credit-to-GDP exceeds a threshold
- OLS: Interest rates \(i_t\) depends on FSR risk
  - Controlling to FSO, Inflation, Gap, and others
- Try to measure MP response
  - 0.3 pp in appropriate sub sample
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

INTERESTING

AND

RELEVANT
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Economics of the selected FSR measure

• Credit-to-GDP is typically considered in MP decision
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Economics of the selected FSR measure

- Credit-to-GDP is typically considered in MP decision
  - Mainly through its effect on future inflation …
  
  … the leverage really matters
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Economics of the selected FSR measure

- Credit-to-GDP is typically considered in MP decision
  - Mainly through its effect on future inflation …
    … the leverage really matters
- Why is lagged information of 8% above LTT a trigger to possible 0.3 increase?
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Isn't lagged credit-to-GDP a poor information about FSR?
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Isn't lagged credit-to-GDP a poor information about FSR?

• long or short term?
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Isn't lagged credit-to-GDP a poor information about FSR?

- long or short term?
- local currency denominated?
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Isn't lagged credit-to-GDP a poor information about FSR?
- long or short term?
- local currency denominated?
- collateralized?
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Isn't lagged credit-to-GDP a poor information about FSR?

- long or short term?
- local currency denominated?
- collateralized?
- Most from firm? Household?
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Lack of other richer measures that are used by the central banks (for financial stability purpose)?
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Lack of other richer measures that are used by the central banks (for financial stability purpose)?

- Rating
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Lack of other richer measures that are used by the central banks (for financial stability purpose)?

- Rating
- CDS
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Lack of other richer measures that are used by the central banks (for financial stability purpose)?

- Rating
- CDS
- VIX
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Endogeneity concerns: $i_t$ may affect FSR

- Low $i_t$ leads to higher risk-taking
  - bias would be against the significance of the result
Comments on Kristina Hessz paper

Monetary Policy and Financial Stability: Cross-Country Evidence

Endogeneity concerns: $i_t$ may affect FSR

- Low $i_t$ leads to higher risk-taking
  - bias would be against the significance of the result
- But in case of sub-prime
  - Very low $i_t$
  - Possible low risk-taking (liquidity-pool)