Policy Interactions and International Spillovers in the Global Economy: an Academic Perspective

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Olivier JEANNE

Johns Hopkins University

Peterson Institute, NBER and CEPR

Introduction

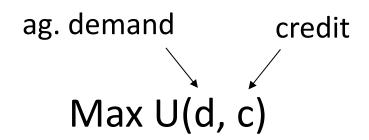
This workshop presents two research agendas:

 Interaction between macropru and monetary policies in international context (IBRN)

Integrated Policy Framework (IMF)

with some conceptual overlap, but very different approaches

Targets



maximized for d^* and c^*

Instruments (with interactions)

monetary policy macropru
$$d = D(i, \tau)$$
$$c = C(i, \tau)$$

 Tinbergen principle: because # instruments=# targets, both targets can be achieved simultaneously:

	Target	Instrument
Monetary policy	Demand d*	i
Macroprudential policy	Credit c*	τ

Policy interactions are not a problem (except if instruments are collinear)

- Many reasons that the policy mix is more complicated in practice
 - one being that one policy instrument might decrease the effectiveness of the other

The papers in the IBRN package estimate various versions of

$$c=C(i,\tau)=\alpha_i\cdot i+\alpha_\tau\cdot \tau+\alpha_{i\tau}\cdot i\cdot \tau$$

(where c is bank credit, for different countries and specifications)

- remark: to study the impact of i^* , one should keep i
- Focus is on the sign of interaction term $\alpha_{i\tau}$
 - if $\alpha_{i\tau}$ >0, a macroprudential restriction mitigates the responsiveness of bank credit to monetary policy

- To understand interaction between policies one needs to look at impact of instrument on each others' targets
- Monetary and macropru. may have to pull in opposite directions
- In this case, what gives?
 - risk of hitting ZLB

Integrated Policy Framework

- IMF staff develops an integrated policy framework (IPF) to study broad policy mix in open economy: interest rate, foreign exchange interventions (FXI), macropru., capital controls
 - interdepartmental effort
- From an academic perspective, Basu et al's (2019)
 RES model is state-of-the art
 - analysis is micro-founded and welfare based
 - incorporates frictions that have been studied separately in the literature

Integrated Policy Framework

- What Basu et al try to do is hard
- The academic literature has updated the Tinbergen principle by allocating instruments to frictions
 - nominal: Correia et al (2013), Farhi et al (2014), etc.
 - financial: Benigno et al (2016), Jeanne and Korinek (2019), etc.
- But the policy instruments that are optimal in theory do not exist or are imperfect in practice

Integrated Policy Framework

- The academic (welfare-based) literature has not been very good at characterizing complex policy mixes in realistic third-best settings
- One important/realistic feature of the RES model: the depth/shallowness of home financial markets
- Work in progress: it will be important to "distill and translate" the results that are robust and relevant
- Will the model look at international spillovers?

References

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