

Comments on



**Spreading the Word or Reducing the Term Spread?
Assessing Spillovers from Euro Area Monetary Policy**
by Feldkircher/Gruber/Huber

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General Issues

- Paper deals with the important issue of possible spillovers of European monetary policy on countries outside the euro area.
- Sophisticated bayesian global vector autoregressive (BGVAR) framework.
- Positive and significant spillovers on industrial production and equity prices, but not on inflation.
- Transmission is driven by the financial channel and economic integration with EMU core countries.

Modelling of non-standard monetary policy

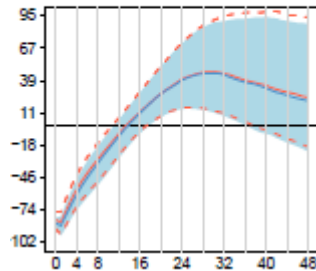
- Term spread of the interest yield curve is a customary index
 - but subject to an identification problem
 - what is the underlying reason for the term spread reduction?

- Risk spread is an interesting amendment;

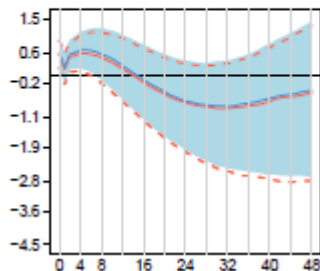
- Possible additional extension:
Effective monetary stimulus (EMS) compares actual long-term interest rates with the natural long-term interest rate
Halberstadt / Krippner (2016)
 - natural rate of interest can be a benchmark in times of a binding lower bound on short time interest rates.

Results

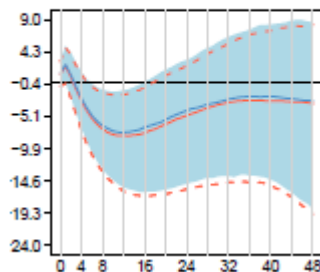
(c) Term spread



(f) Industrial production



(i) Equity prices

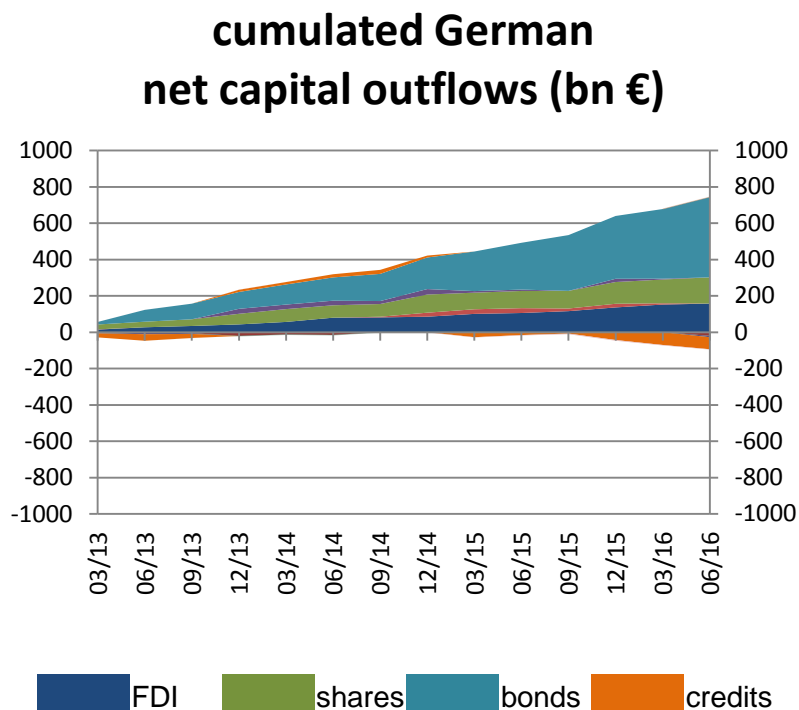


- Monetary policy is modelled as a temporary shock in the term spread, i.e. long-term interest rates.
 - Strong mean reversion (prior?)
 - Unclear, whether change or level of interest rates is relevant
 - Unclear, whether effects persist in case of a permanent reduction in the term spread.
- Positive spillovers of term spread reduction on industrial production rather short-lived.
- Effects on equity prices do not really draw a clear picture.
- Comments regarding risk spread reduction are basically the same.
- Generally: spillovers seem to be rather limited.

Estimated Spillovers

- Industrial production, equity prices, inflation, exchange rate
- Given the importance of the financial channel and with respect to financial vulnerability, effects on some additional variables might also be interesting:
 - Credits to the private sector,
 - Capital inflows,
 - Effects on the housing sector.
- Argument that trade linkages with European core countries determine importance of spill-overs not consistent with the dominance of the financial transmission channel.

Portfolio Rebalancing and Capital Flows



- Since the start of non-standard monetary policy measures German net purchases of debt securities have picked-up significantly.
- Non-euro area debt securities account for 75% of these net purchases.
- In Germany, portfolio rebalancing mainly affects the regional structure of debt securities.
- Shifting towards equity is of minor importance.

Policy Implications

- Since spillovers on industrial production limited, this aspect seems to be of minor relevance for European monetary policy.
- However, effects on the financial sector might be more pronounced.
- Experience of Latin American countries during the tapering debate in 2013 has shown that effects of monetary policy can be asymmetric.
- Question of asymmetric spillovers might also be highly relevant with respect to European tapering envisaged for next year.