Closing remarks to 2018 CEBRA-IFM program meeting hosted by the Bank of Spain

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Let me start with a couple of words about CEBRA. CEBRA is a new association that is open to all researchers in academia, central banks, and other policy institutions worldwide. It is free to join by going to cebra.org. There are so far a couple of programs within CEBRA. I am the director of the IFM program and this is our second annual meeting.

I would like to first thank two people who are not here: Adrian van Rixtel and Jose Manuel Marques who met the idea of hosting a CEBRA IFM annual meeting at the BdE with enthusiasm. From then on, I am in debt to Isabela, Sergio, Carolina and other people who made this event a reality – they were a great team to work with. Thanks to our keynote speakers for thought-provoking remarks. Finally, thanks to all of you for submitting your papers, agreeing to discuss, and being here. I learned a lot in these two days and I hope so did you.

I would like to share my somewhat impressionistic view of the two main themes that were discussed in this room in last two days, revolving nicely around our two keynote addresses.

Theme 1: Globalization and related policy challenges.

First theme relates to various ways in which the world is becoming smaller despite major disruption global markets experienced 10 years ago or in some ways because of it. The Governor in his introductory remarks yesterday talked about post-crisis financial developments that made both emerging and developed economies very susceptible to the way in which major central banks conduct normalization of monetary policy. He also discussed challenges faced by new macropridential policies and the need for global regulatory backstops to financial market shocks.

The question of global financial architecture was picked up by Ricardo in his remarks about global network on swap lines and potentially the need multilateral rules, revisiting the question of ILLR and global financial architecture, which goes beyond monetary policy coordination, a topic much discussed following the Asian financial crisis. While not a global institution, ECB *is* an ILLR for the Eurozone. Bernd showed us today how to think of the risk such an institution may face, the importance of credibility of the goals of liquidity policies, and showed that ECB's risk taking in crisis was appropriate.

[1] The views reflected in these notes are my own and do not necessarily represent the views of Federal Reserve Bank of San Francisco, Federal Reserve System, or any other person affiliated with it.

A lot of discussion in the literature is about spillovers from big to small countries, including Pasquale's paper that points to the importance of global risk, in his case for the volatility of local financial markets. In a similar vein, Arpita's paper analyzes spillovers of U.S. uncertainty to EME fundamentals. Mariano's paper, on the other hand, showed us that small countries could also export their volatility shocks through international volatility of risk-sharing. Encompassing all directions of spillovers, Ambrogio's paper shows the importance of global growth factor and to some extent global financial shock. This is an important paper for spillover literature because it points to the pitfalls of ignoring common shocks. This result echoes findings by Massimo Ferrari and coauthors, paper not presented here, showing that ignoring a common shock leads to estimates of monetary shocks spillovers that are implausibly large.

Theme 2: The importance of tail risk and higher moments

The second theme we discussed today is the importance of tail risk and more generally of proper risk measurement. To me this is a call for action to the researchers to push the boundary and not to limit ourselves to the first two moments of heterogeneity of firms and prices.

Tiago's paper uncovered an important stylized fact that shocks to skewness of financial firm performance distribution drive business cycle. I agree with discussants and the audience that this poses a challenge of understanding what drives this skewness, highlighting importance of heterogeneity and disaggregated analysis, at higher moments.

Torben showed us how one can measure in real time markets' price of the left tail risk and why it is important to focus on tail risk in addition to or perhaps instead of overall volatility. Juan in his discussion raised a related important issue of understanding differences in the amount of risk, perception of the amount of risk, and price of risk – the issue that is inherently challenging from empirical standpoint. Another decomposition that is important to understand is that of realized and forward-looking volatility in David Berger and co-authors paper kindly presented to us by Vahid.

In post-crisis years a number of measures were developed to measure tail risks and, importantly, comovement in tail risk in financial system, in the "systemic risk" literature. Continuing on the topic of measurements, Ben's paper sheds historical light on how these measures should be used and, more importantly, should not be used.

To summarize, global risks are important and need to be seriously considered by policymakers. To take them into account, it is important to understand the nature of global risks and for this one needs to properly measure them. When we discussed the theme for this conference, this is exactly what we were hoping to learn more about and I believe we did.