Discussion of

A skeptical view of the impact of the Fed's balance sheet

by D. Greenlaw, J.D. Hamilton, E. Harris and K.D. West

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ECB workshop on money markets, monetary policy implementation, and central bank balance sheets

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THE OPINIONS EXPRESSED ARE PERSONAL AND DO NOT NECESSARILY REPRESENT THOSE OF THE ECB!

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- A business for central bank economists

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  - (and the paper doesn't even begin to address the question: what are the effects of QE on inflation and output)

Outline

- Review of the results in the paper in light of the literature and euro area experience

Challenges in measuring the impact of QE on 10y yields

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  - scarcity of events makes results somewhat sensitive to event choice

A review of the literature

- Andrade et al. (2016)

Table 1: Impact of QE programs on 10 yrs government bond yields*

	All QE episodes	Euro area	US			UK	Japan	
		APP 03/15-09/16	LSAP1 12/08-03/10	LSAP2 11/10-06/11	MEP 09/11-12/12	APF1 03/09 - 01/10	CME+ 12/08-08/11	QQE 04/13-09/14
Size (% of GDP)		11%	12%	4%	3%	14%	21%	23%
Median	53	43	76	45	60	67	11	20
Range	10-175	27-64	32-175	33-138	23-175	34-107	10-12	14-26

*Based on results from 24 studies listed in Appendix B. The table indicates the size of the purchases conducted within each program as a share of domestic GDP, the periods when the purchases were conducted, and the median and range of the impact on 10-yrs bond yields, expressed in bps, standardized to purchases of 10% of GDP.

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- GDHW: "We read the evidence as indicating that while unconventional policy works, the impacts are more modest and uncertain than some summaries of the literature suggest"

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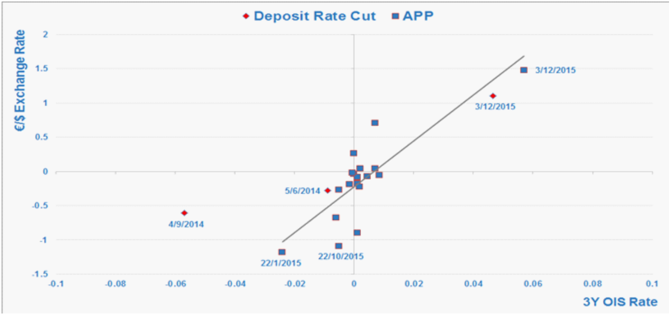
- Fed news occur outside Fed days. ECB example:



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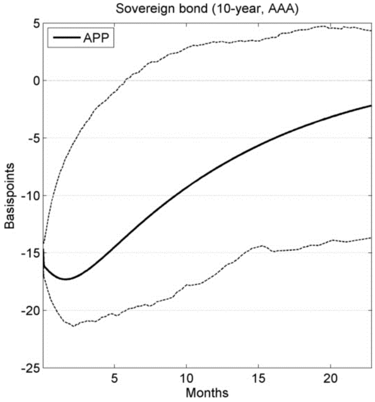
- Euro area experience (Andrade et al, 2015; based on a daily VAR model estimated over the 2013-2015 sample following 25 APP news)



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- An alternative portfolio-balance interpretation: HH's have a certain SDF $Q^{\$}_{t+1}$ which they use to price assets, hence

$$R_{t,n} = \left(\mathrm{E}_t \left[Q^{\$}_{t,t+1} Q^{\$}_{t+1,t+2} \cdots Q^{\$}_{t+n-1,t+n} \right] \right)^{-1/n}$$

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- Banks are different because they have a leverage constraint $k\left(l_{t+1}\right) > 0$ $(k' > 0,\ k'' > 0)$. As a result (Lenel, Piazzesi and Schneider 2018)

$$Q^{\$,B}_{t+1} = \left[Q^{\$}_{t+1} \left(1 + k'\left(\cdot\right) l_{t+1} - k\left(\cdot\right)\right) \right]$$

which is the relevand SDF if banks are the marginal investor

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- Effects of purchases will be stronger, the tighter the leverage constraint (i.e. the larger $k'(l_{t+1})$)
- When banks are well capitalised, leverage is low, $k'(l_{t+1}) \simeq 0$. Hence purchases/sales will have near-negligible effects

Main results of the paper IV

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  - many more studies of the euro area experience provide a more nuanced picture (Ampudia and Van den Heuvel, 2018; Demiralp, Eisenschmidt and Vlassopoulos, 2018; Amzallag ,Calza, Georgarakos and Sousa, 2018): adverse effects present, but minor. The "reversal rate" possibly much lower than zero.

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- "The Fed's balance sheet does not appeal as a primary tool of monetary policy going forward" $\surd$
- Judgement on negative interest rates experiences is still open