UNCONVENTIONAL MONETARY POLICY: AN INTERIM ASSESSMENT

BY RAGHURAM RAJAN

Ricardo Reis
LSE

20th of October, 2021
BIS-SARB centenary conference
South Africa (virtually)

Channels… and concerns

1. Repair financial markets
2. Transfers to banks
3. Direct lending to firms
4. Portfolio rebalancing
5. Signalling
6. Flattening yield curve

1. Positive fiscal footprint
2. Shorten maturity of debt
3. Search for yield
4. Raise asset prices
5. Promote leverage
6. Liquidity dependence

Remove asset holdings?

1. Continue floor system / structural liquidity purchases
   - Friedman rule
   - Liquidity dependence is an important argument (adding to political)

2. Deposit rates as main tools of monetary policy
   - interbank markets are not so central

3. If r* remains low, we will hit EBL at short end often
   - rely on "going long" for monetary policy
   - pure signaling by forward guidance is not enough

4. Central bank digital currency

Reform asset purchases?

1. Need for more research, disappointing so far

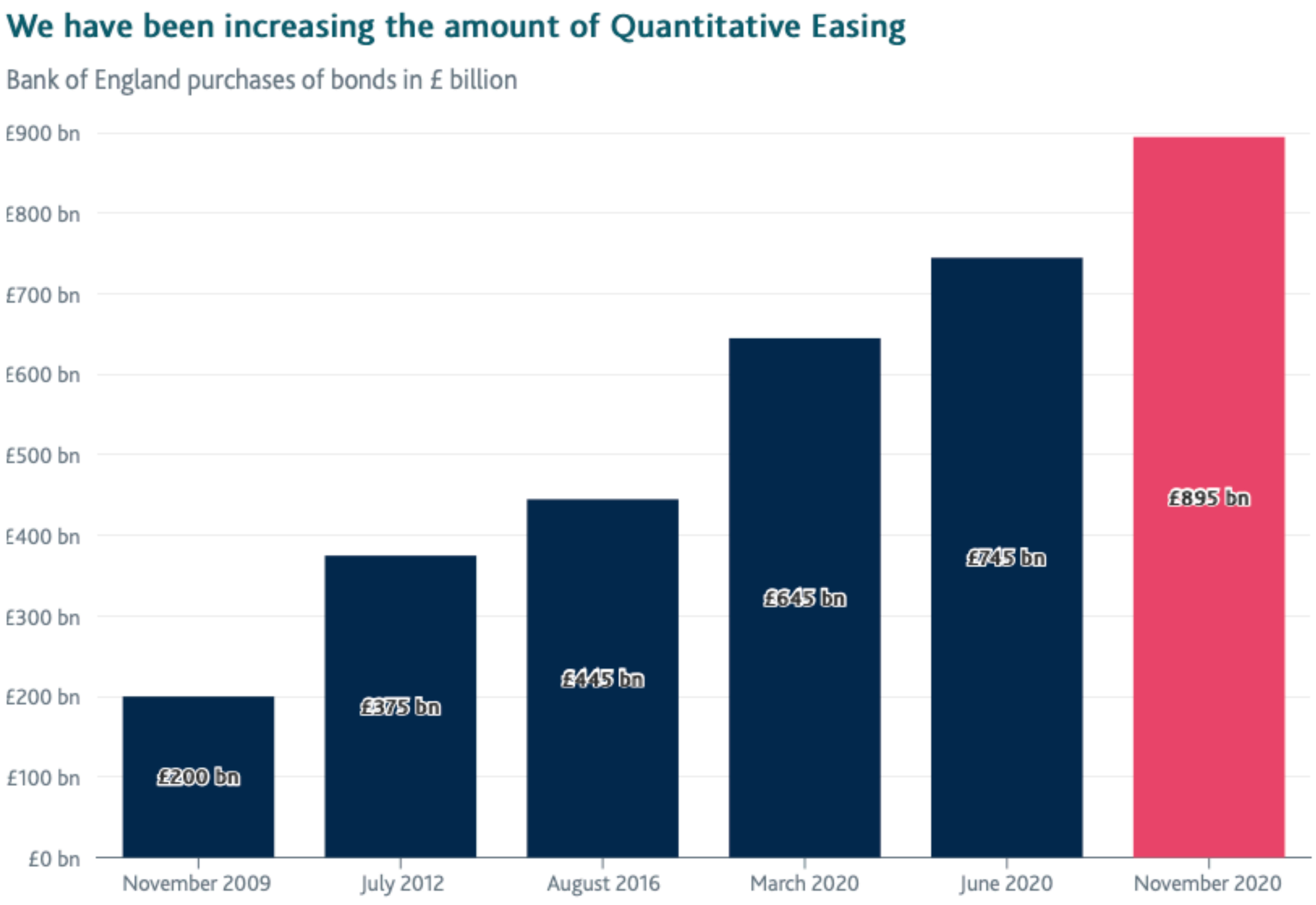
2. Communicate in terms of prices instead of quantities

3. More plain vanilla: Treasuries only. (For EMs, domination vs segmentation)

4. Improve governance of relations with fiscal branch
    - maturity of public debt, market maker role
    - risk management (recapitalizations and losses)

5. Improve interaction with macroprudential regulations
    - regulatory ratios
    - unpleasant macro prudential arithmetics

Reverse asset purchases?



Current pace is very hard to justify

Is it so hard to announce reversal?

Good intermediate step in current inflationary conditions