

# Measuring Euro Area Monetary Policy

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Discussion by Jonathan H. Wright

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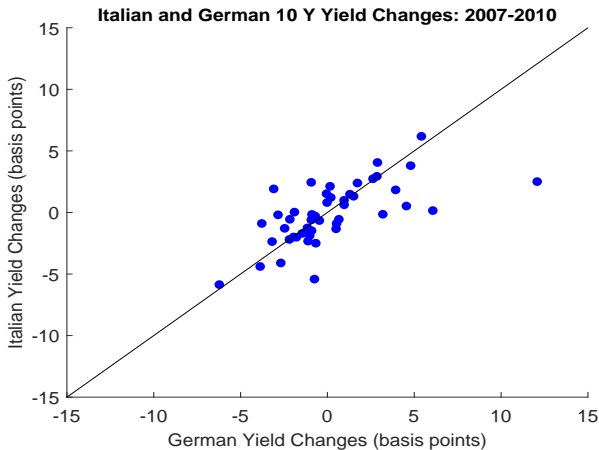
# Paper Summary

- Constructs and analyzes Euro Area Monetary Policy Event Study Database (EA-MPD)
- Asset price jumps around MP announcements
- Surprises are multidimensional
- Exploits factor analysis and the particular timing structure of ECB announcements to measure target, timing, forward guidance and QE surprises

# Paper Summary

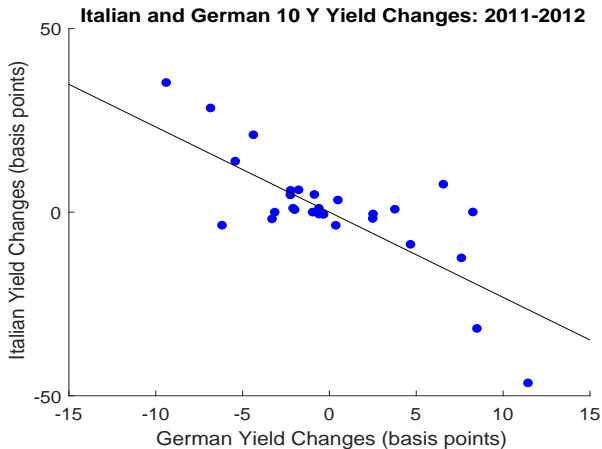
- Very careful analysis, controls for US announcements
- Findings:
  - ▶ QE shocks more persistent than in US
  - ▶ Stock market responses depend on information effects
  - ▶ No evidence of asymmetry in the euro area
- ECB is currency union without fiscal union
  - ▶ But that doesn't show up in MP reactions

# Normal Times

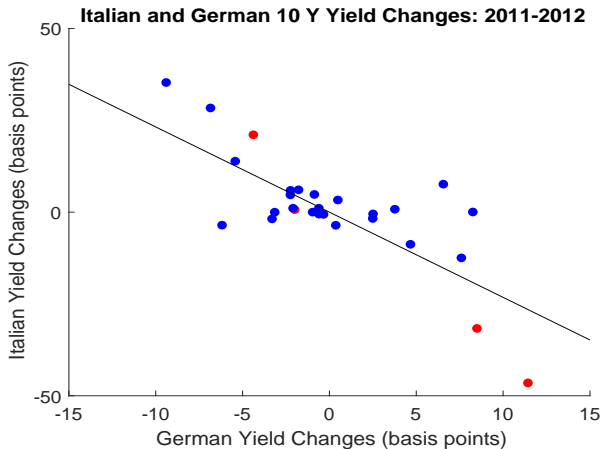


Source: Rogers, Scotti and Wright (2014)

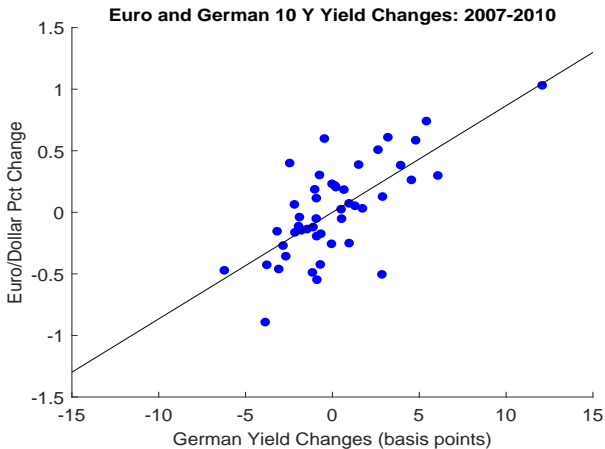
# Debt Crisis



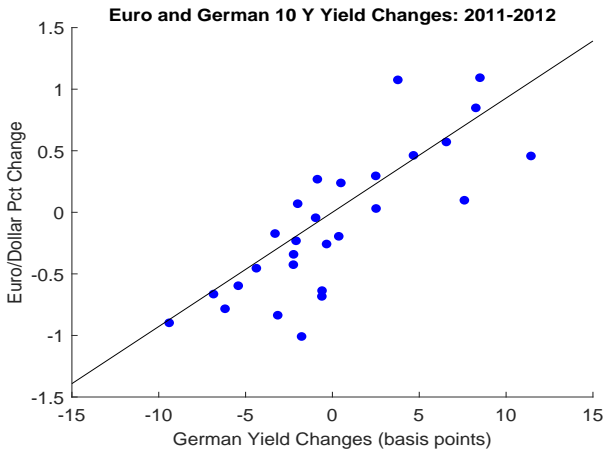
# Debt Crisis



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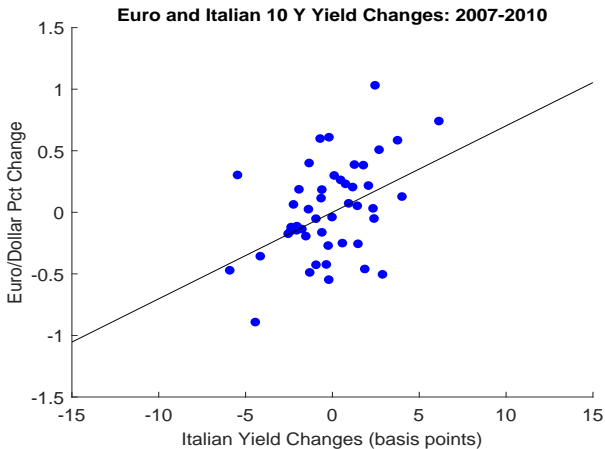


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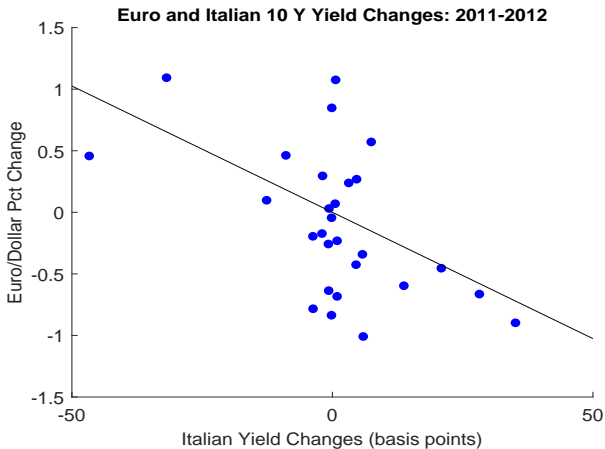




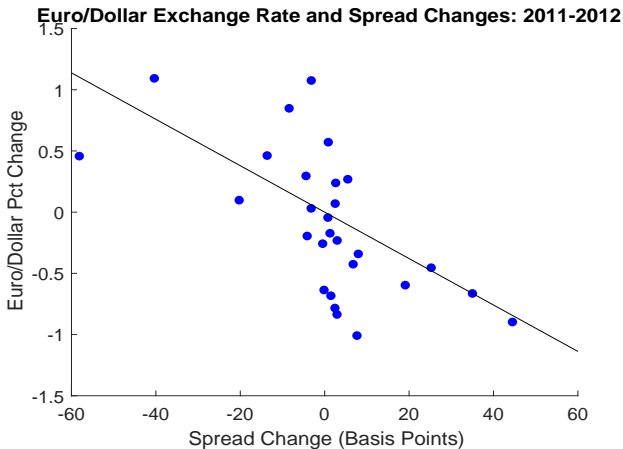
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# Debt Crisis



## A fifth factor?

- Events: Italy 10Y ↓; Bund 10Y ↑; Spread ↓; €↑.

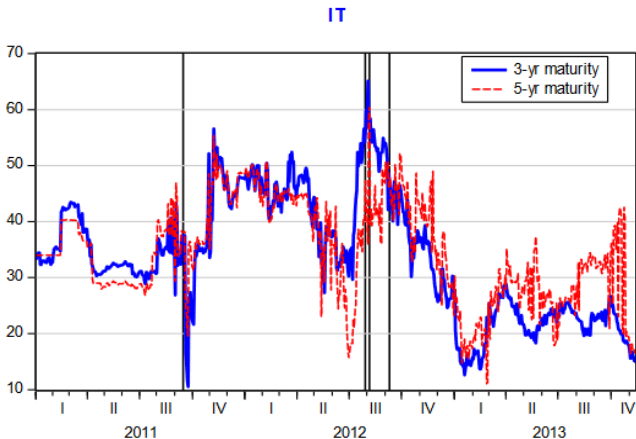
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- Events: Italy 10Y ↓; Bund 10Y ↑; Spread ↓; €↑.
- A fifth “save the euro” factor in 2011-12
- Paper doesn't find it
  - ▶ Perhaps only important around 2011-12
  - ▶ **By construction** the factors only load on safe rates
- But it was there in 2011-2012, especially in “whatever it takes speech”

# Redenomination Risk from Quanto CDS



Source: De Santis (2018)

# Persistence of effects of shocks

- Event studies wonderful, but persistence unclear
- Paper finds 1 year half life of QE shocks
  - ▶ Contrasts with very transient effects in US
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  - ▶ Wright (2012) and Greenlaw et al. (2018)
- Remember that there are confidence intervals!
- US evidence sensitive to March 2009
  - ▶ Swanson (2017)
- 1 year half-life not very persistent
- “Fed view” seems to be stock not flows  $\implies$  near-permanent effect

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- Authors have done lots of interesting analysis of these data
- New directions include:
  - ▶ How effects on bank share prices differ at negative rates (Ampudia and van den Heuvel (2018))
  - ▶ How euro area shocks affect US
  - ▶ SVAR with macro vars and MP shocks as instruments