Technical Training Course

MACROECONOMIC MODELS FOR MONETARY AND MACROPRUDENTIAL POLICY ANALYSIS

April 16-17, 2012
IDB, 1350 New York Av., NW, Washington, DC – Room B232
By **Prof. Pierre-Richard Agénor** (University of Manchester and CGBCR)

Agenda

Monday April 16

8:45am **Coffee and Breakfast**

9:00am **Welcome and Introduction:**
Eduardo Fernández-Arias, Advisor, Research Department, IDB

9:10am-12:30pm **Session I**

Following a brief overview of the main financial characteristics of middle-income countries (MICs), the session will continue with the presentation of a simple static model of a credit-based, closed economy for monetary policy analysis. The model will emphasize the role of collateral effects in setting bank interest rates.

12:30pm - 1:00pm **Professor Agenor available for consultations**

1:00pm – 2:00pm **Free time for Lunch**

2:00pm - 5:20pm **Session II**

Extending the basic framework to account for the cost channel of monetary policy, this session will discuss several other extensions, including how to account for open-economy considerations. Various policy experiments will also be conducted.

Tuesday, April 17

8:45am **Coffee and Breakfast**

9:00am-12:20pm **Session III**

After a brief overview of the recent literature on macroprudential regulation, the discussion will turn to the resulting implications for monetary policy. The model presented in the previous sessions will be extended to account, in a dynamic setting, for alternative regulatory capital regimes, including a Basel III-type countercyclical regulatory rule.

12:30pm- 2:15pm **Working Lunch (Room B-200)**
Professor Agenor available for consultations

Policy Panel on Monetary and Macro-Prudential Policy Coordination

Tuesday April 17th * 2:30pm – 4:30pm * IDB, 1350 New York Av., NW, Washington, DC – Room B232

The recent financial crisis has raised fundamental questions on the role and objectives of monetary policy. Some have argued that excessively lax monetary policy before the crisis may have contributed to its occurrence and severity. Moreover, an emerging but already-large literature has responded to this finding by designing monetary policy rules that curtail growth in credit or asset prices. Others, however, believe that the crisis instead resulted from regulatory failures, and that financial stability should be pursued by macro-prudential policy rather than monetary policy, which should continue to focus squarely on macroeconomic objectives such as price and output stability.

Moderator: **Alessandro Rebucci** (IDB)

Panel:
José de Gregorio (Universidad de Chile)
Stijn Claessens (IMF)
Carlos Végh (University of Maryland and World Bank)
Rochelle Edge (US Federal Reserve Board)

This distinguished panel will address some of the following questions:

1) Should monetary policy pursue macro-financial stability as an objective separate from price and output stability, and should it do so during boom as well as bust times? If so, why? What are the potential costs and benefits of tasking monetary policy with financial stability objectives? Is there a trade-off between macroeconomic and financial stability? If so, does that trade-off involve all shocks or only a more limited set of circumstances?

2) How should monetary policy pursue financial stability in boom times? By adding macro-prudential targets to standard monetary rules, or by complementing monetary rules with separate macro-prudential rules? On the other hand, how should monetary policy proceed in bust times? Where do quantitative easing and other quasi-fiscal interventions fit in this picture? Should they be part of an expanded monetary policy framework? If so, how should central banks communicate about their new frameworks?

3) What are the multilateral implications of a generalized shift toward monetary frameworks expanded to include financial stability objectives? Could (or should) large as well as small open economies task monetary policy with macro-financial stability objectives? What would be the implications for emerging markets if the FED, ECB and BoJ were to include macro-prudential objectives in their monetary reaction functions?

4) How should monetary and macro-prudential institutions be designed? Do experiences of coordination between monetary and fiscal policy and/or between monetary and exchange rate policy provide any lessons or guidance? How should the monetary policymaker and the macro-prudential regulator coordinate? When should monetary and macro-prudential policy complement each other, and when should they substitute for each other? Who should design and implement quantitative easing—the monetary policymaker or the macro-prudential regulator?

Other Events:

April 18-19, 2012

IDB XXXV Meeting of the Network of Central Banks and Finance Ministries: www.iadb.org/macro

April 19, 2012

IDB/WB Policy Seminar: Latin America Under the Threat of a New Global Storm: Ready or Overconfident?
http://events.iadb.org/calendar/eventDetail.aspx?lang=en&id=3103