

# The Toolkit of Policies in the *Brave New World* of Debt

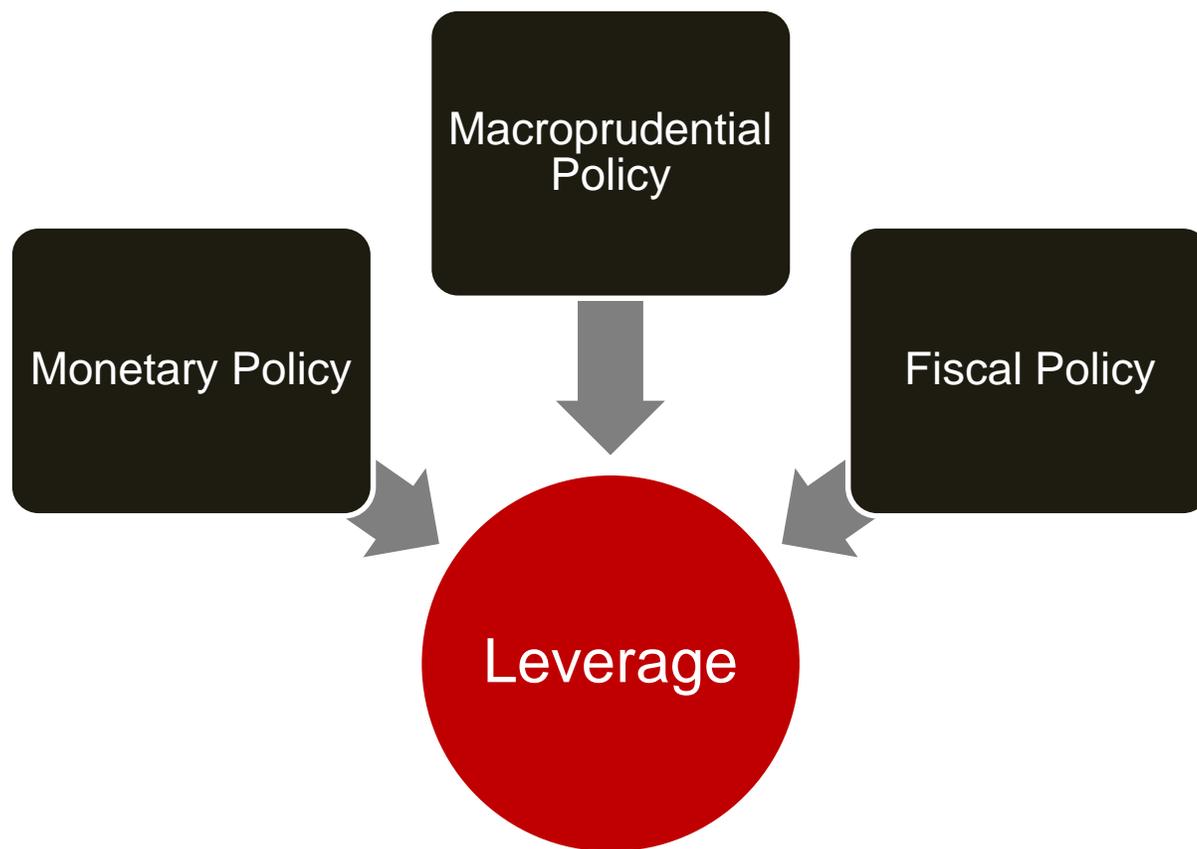
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*MIT-Sloan School, NBER & CEPR*



Federal Reserve Bank of Boston  
65 Economic Research Conference  
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# The Assignment



CEPR PRESS

# “Tool Box” of Central Banks



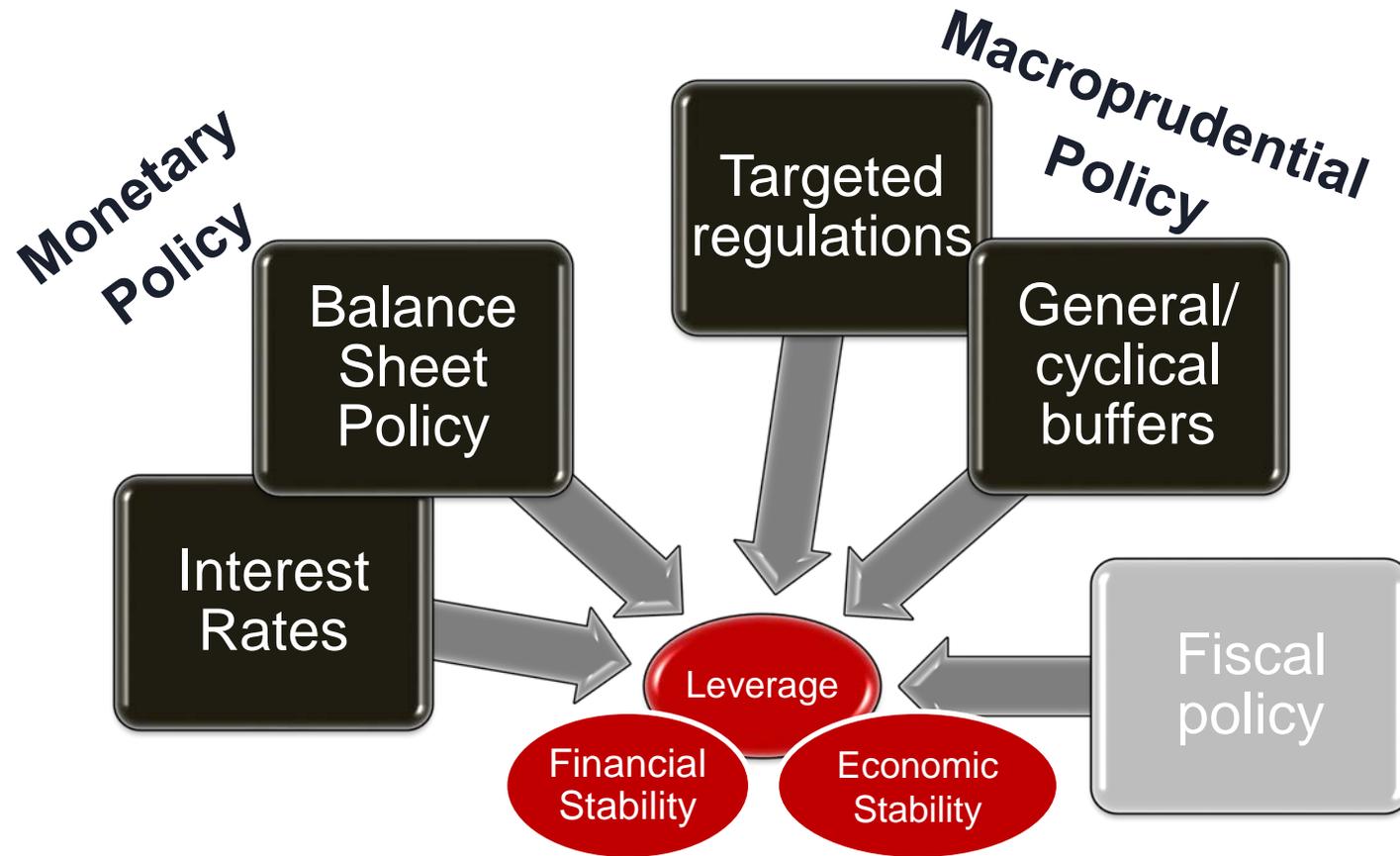
Edited by Bill English, Kristin Forbes  
and Angel Ubide

## Monetary Policy and Central Banking in the Covid Era

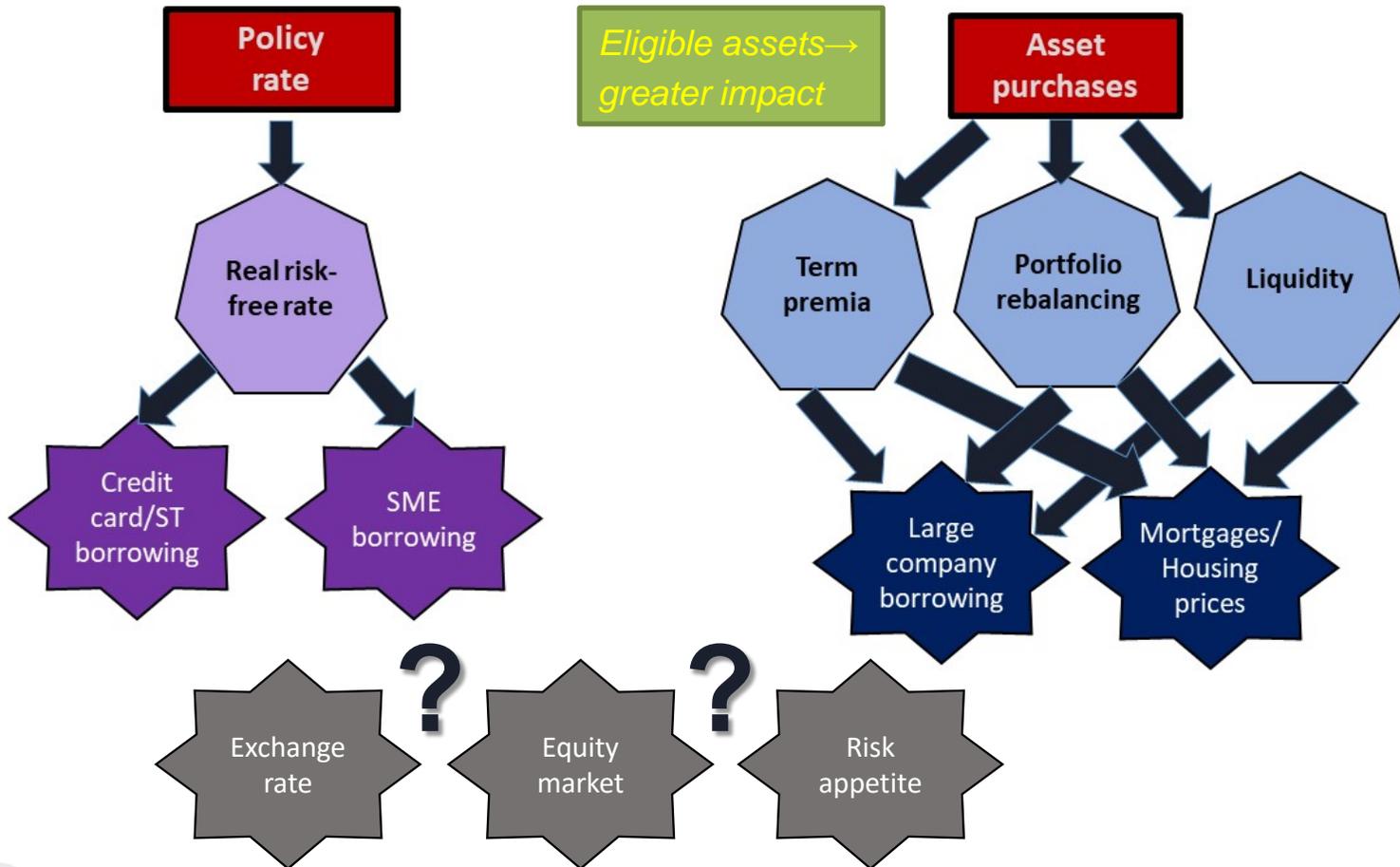
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# My Comments

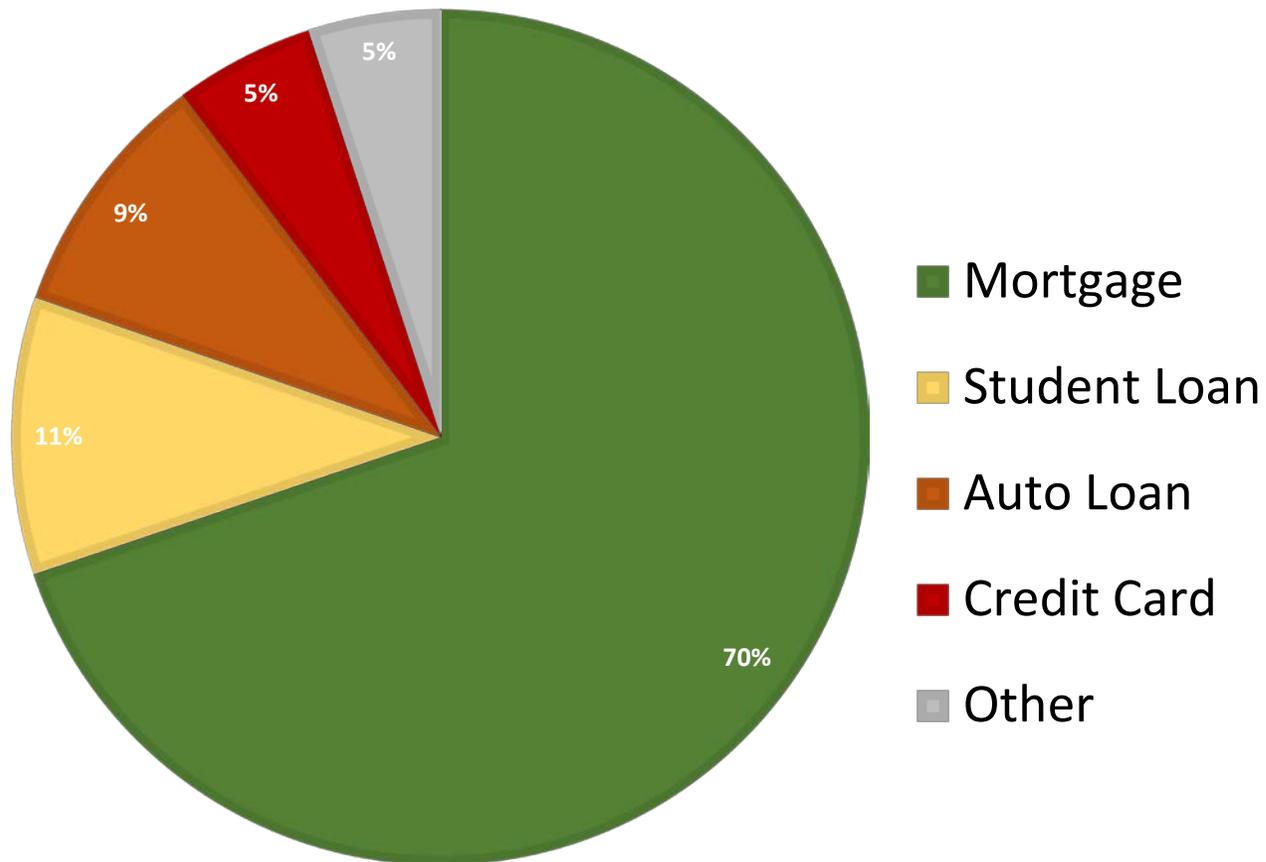


# Channels of Monetary Policy



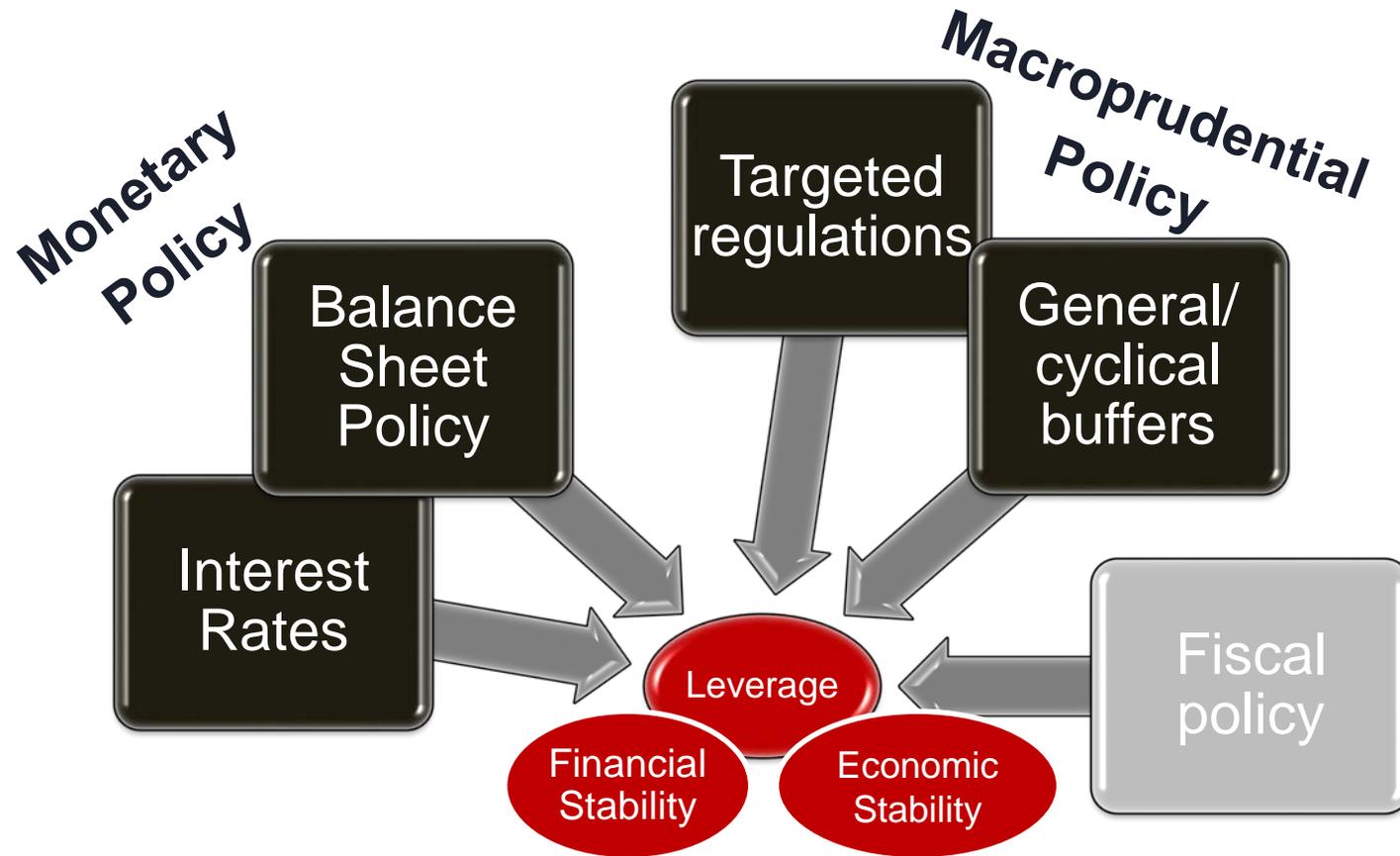
Source: Forbes (2021), Unwinding Stimulus in an Uneven Economy. Comments at Jackson Hole symposium.

# US Household Debt Composition (2021 Q2)



Source: Based on data from Quarterly Report on US Household and Credit, NY Federal Reserve, Aug 2021.

# My Comments



# Tools of Macroprudential Policy

## Two broad categories:

- **General / Cyclical Regulations**
  - Capital/reserve/liquidity regs on all exposures
  - Counter-cyclical capital buffer (CCyB)
- **Targeted Regulations**
  - Regs for certain exposures (housing/FX/foreign)
  - Vulnerabilities to mortgage risk (LTV/DSTI)

## New literature: can reduce targeted vulnerabilities in institutions subject to the regulations

- But also meaningful leakages & spillovers

## Targeted regulations generate more “risk shifting”

- By volume
- To riskier intermediaries (*Monday presentations*)



# Tools of Macroprudential Policy

## Spillovers at the Extremes: The Macroprudential Stance and Vulnerability to the Global Financial Cycle

- Chari, Dilts-Stedman, and Forbes (2021)

### **Key question: does macroprudential policy affect the sensitivity of portfolio flows to risk shocks?**

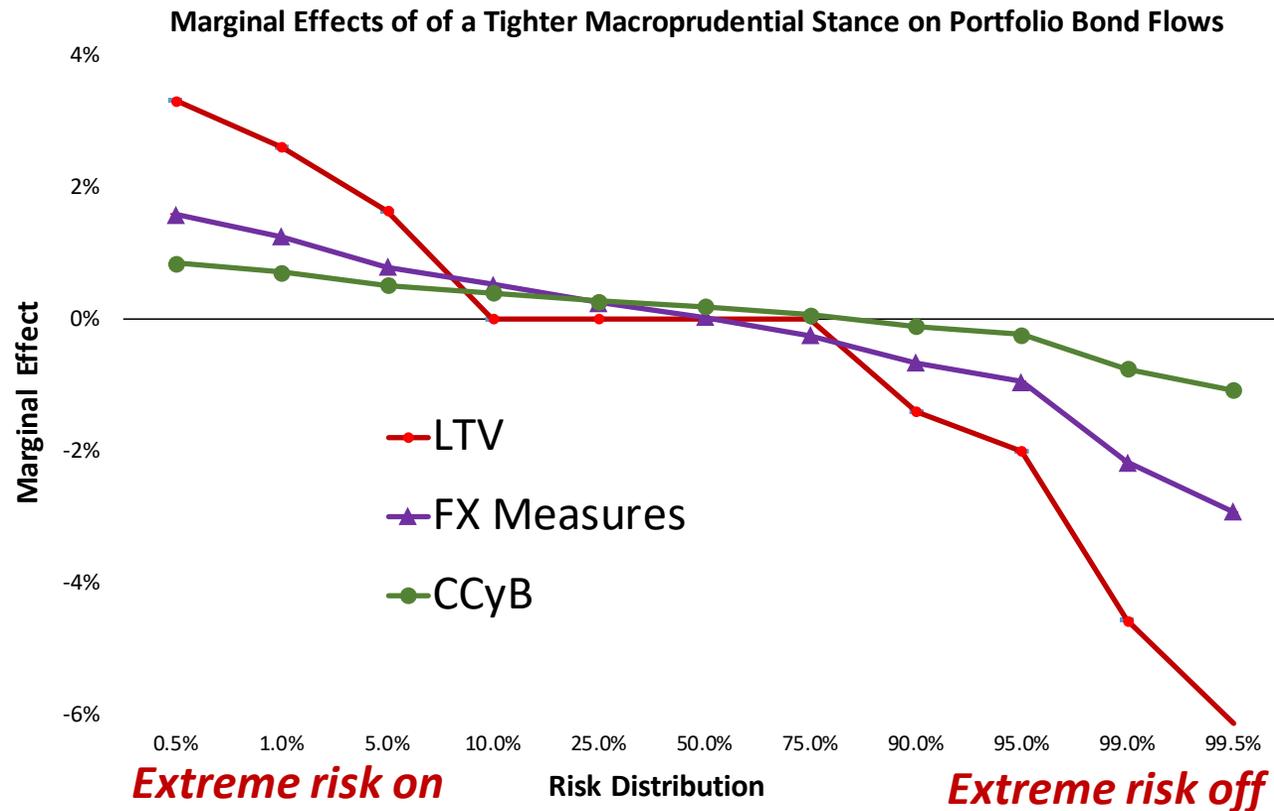
- New measure of macroprudential stance, captures intensity and type of instrument
- Weekly EPFR data on portfolio investment

### **Large and significant amplification effects at “the extremes”**

- No effect “on average” or during “normal times”
- **Larger effects during “risk off” shocks**
- **Larger effects for targeted regulations on bonds (FX & housing)**



# Amplification Effects of Macroprudential Tools Across the Risk Distribution



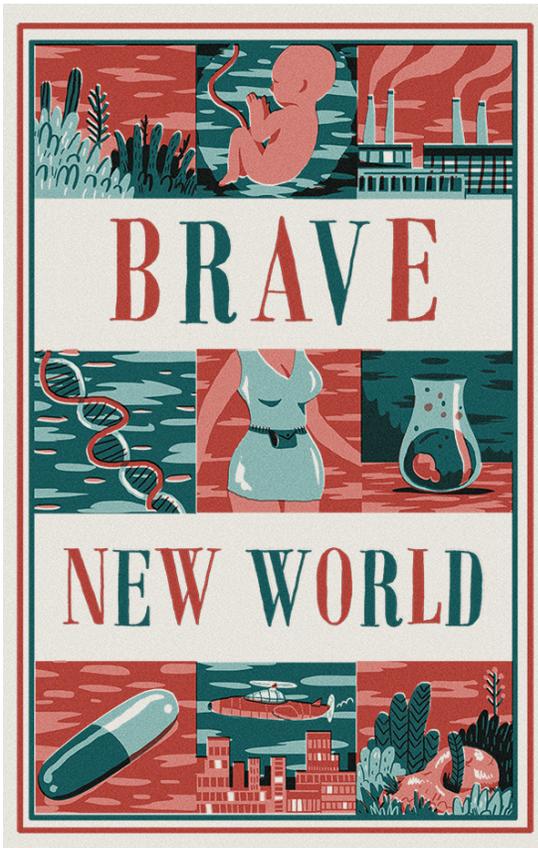
**Notes:** Based on results in Chari, Dilts-Stedman and Forbes (2021), Spillovers at the Extremes: The Macroprudential Stance and Vulnerability to the Global Financial Cycle. Figure shows a graphical representation of the results from Table 5 on the marginal effects of a 1 unit *ex ante* increase in the *MP Stance* when interacted with *Risk* at different points in the *Risk* distribution.

# Final Thoughts

- Roles for both monetary and macroprudential policy
- **BUT--careful attention to which tools in each category**
  - Balance sheet policy vs interest rates
  - Generalized buffers vs. targeted regulations
  - **New opportunities thanks to expanded toolkit**
- **Evaluate not just the direct impact on aggregate leverage/exposures but resilience of who holds the exposures**



# Brave New World



**Source:** <https://www.cchsvoice.org/book-review-brave-new-world/>