

CNB Research Open Day 2022

Opening Remarks

Simona Malovaná
Director of Financial Research Division

Czech National Bank, 23 May 2022

The mandate of the Czech National Bank

The mandate of the Czech National Bank is based on [Act No. 6/1993 Coll. \(pdf, 282 kB\)](#), on the Czech National Bank, as amended.

- » to maintain price stability,
- » to maintain financial stability and see to the sound operation of the financial system in the Czech Republic,
- » to issue banknotes and coins, manage the circulation of currency and administer clearing between banks,
- » to supervise the entities operating on the financial market.

» Through *monetary policy* we seek to preserve price stability, i.e. low and stable inflation. Through macroprudential policy we foster financial stability and resilience of the financial system, which are necessary conditions for the maintenance of price stability. Through **the joint action of monetary policy and macroprudential policy**, we contribute to maintaining confidence in the value of the Czech koruna and safeguarding the stability of the macroeconomic environment.

Cooperation of monetary and macroprudential policy

- High degree of cooperation on **multiple levels** – policy, analytical, and research
- The monetary and financial stability departments **exchange information** before policy meetings
 - ▶ They cooperate on the analyses (satellite models, stress testing, scenario analysis etc.)
- Each department prepares briefing materials **for the opposite policy meeting** and attends the meeting
 - ▶ This includes complementary monetary policy or macroprudential **policy recommendation**
- Both monetary policy and financial stability issues are discussed during both meetings
- Both departments cooperate also in the area of research
 - ▶ **Two research divisions** – in the monetary and financial stability departments

Analytical framework and the role of research

- The objective of the CNB's research is to provide outputs that help to **expand the knowledge base** needed for the core activities of the CNB and which are of a high standard on the international scale
- The CNB's research is focused on seven **main areas**:
 - ▶ monetary policy and analysis of monetary policy transmission,
 - ▶ analysis of the transmission of macroprudential and microprudential instruments,
 - ▶ the interactions between macroprudential, microprudential, and monetary policies,
 - ▶ macroeconomic and financial modelling,
 - ▶ developing the methodology for stress testing the sectors of the financial system,
 - ▶ instruments for identifying and quantifying hidden systemic risks,
 - ▶ the real sector and fiscal policy.

Research papers expanding the analytical toolkit

- **Deriving Equity Risk Premium Using Dividend Futures (CNB WP 1/2021)**
 - ▶ New model that allows for the calculation of the implied equity risk premium and the decomposition of stock price movements into individual components
- **The Rushin Index: A Weekly Indicator of Czech Economic Activity (CNB WP 4/2021)**
 - ▶ A weekly index of Czech economic activity; based on alternative, high-frequency indicators and standard, low-frequency macroeconomic data
 - ▶ The real-time monitoring of economic activity, nowcasting and identifying turning points in the economy
- **Designing Macro-Financial Scenarios: The New CNB Framework and Satellite Models for Property Prices and Credit (CNB RPN 1/2021)**
 - ▶ CNB's satellite models that link the macroeconomic scenario obtained from the core forecasting model with the evolution of key financial variables
- **News versus Surprise in Structural Forecasting Models: Central Bankers' Practical Perspective (CNB RPN 2/2021)**
 - ▶ The paper highlights the differences between news and surprise shocks and argues that most shocks in central bank forecasts should be treated as news

Research papers on the MP and MPP interaction

- **Holding the Economy by the Tail: Analysis of Short- and Long-run Macroeconomic Risks (CNB WP 3/2021)**
 - ▶ Award for the best CNB research paper of 2021
 - ▶ Presented later this afternoon
- **Monetary Policy Spillover to Small Open Economies: Is the Transmission Different under Low Interest Rates? (CNB WP 6/2021)**
 - ▶ Prepared as a part of the ongoing [International Banking Research Network \(IBRN\)](#) initiative on low interest rates and banking
- **Macroprudential Policy in Central Banks: Integrated or Separate? Survey Among Academics and Central Bankers (CNB RPN 4/2021)**
 - ▶ Survey among experts conducted in April 2021
 - ▶ Almost 400 questionnaires collected

Monetary policy spillover to small open economies

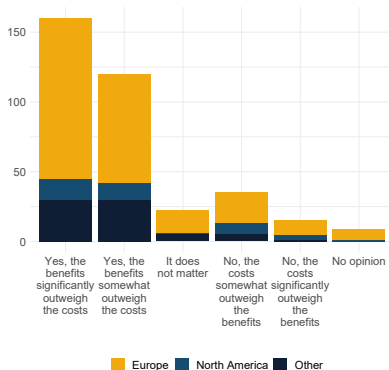
(CNB WP 6/2021)

- How do low or negative interest rates in core economies (US, EU, UK) affect bank lending in small open economies (CA, CL, CZ, NO) through international banking?
- We use **confidential supervisory bank-level data** in 2002–2019
- **Findings:**
 - ▶ Evidence of **portfolio channel** in “normal” times: core rates $\uparrow \Rightarrow$ lending in the periphery \uparrow
 - ▶ When core rates are low, **international lending channel** dominates: core rates $\uparrow \Rightarrow$ lending in the periphery \downarrow
- **Policy implications:**
 - ▶ Central banks in small open economies should watch for potential regime switches between high and low interest rates periods of the core countries

The CNB survey on MP and MPP interaction (CNB RPN 4/2021)

- We asked experts from academia, central banks and other regulatory institutions a battery of questions on coordination of macroprudential and monetary policy
- Striking [support for integrating](#) macroprudential policy in central bank
 - ▶ Widely shared opinion among the respondents on the strong interdependence of the monetary and macroprudential policy conduct
 - ▶ Information gains
 - ▶ Increased capacity to act swiftly in response to conflicting situations

Figure: Should a CB conduct both monetary and macroprudential policy?



The CNB survey – policy objectives and MP effectiveness

- Not so clear opinion on whether
 - ▶ the central bank should favor price stability or financial stability, if the two are in conflict
 - ▶ monetary policy is effective in mitigating systemic risks

Figure: Should a CB favour one of the two objectives?

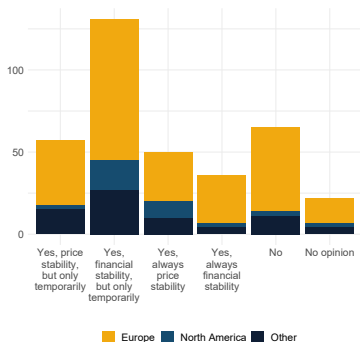
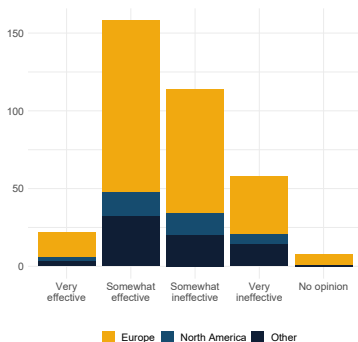


Figure: Can monetary policy mitigate systemic risks?



Ongoing research projects

- **Climate change, green finance, and economy**

- ▶ The impact of climate policy on asset allocation (securities holdings) of high-carbon and low-carbon firms; using granular euro area data
- ▶ Survey among selected experts on the impact of the transition to a low-carbon or decarbonized economy on the behavior of different economic agents
- ▶ Distributional aspects of interactions between monetary policy and climate change policy

- **Distributional effects of macroprudential policy**

- ▶ The impact of macroprudential policy (especially borrower-based measures) on inequality; using both macro-level and granular data

- **Monetary policy and inflation dynamics**

- ▶ The assessment of the nature of the pandemic shock and implications for monetary policy
- ▶ Various attempts to use new data sources (web data, scanner data, text mining)

Past and upcoming events

- June 2022: [Market flexibility and monetary integration](#)
- December 2021: [Workshop “Exchange Rate: A Shock Absorber or a Shock Generator?”](#)
- November 2021: [Fifth Annual Workshop of the ESCB Research Cluster 3 on Financial Stability, Macprudential Regulation and Microprudential Supervision](#) (organized jointly with Bank of England)
- August 2021: [Conference on Expectations in Dynamic Macroeconomic Models](#)

Today's program (1/2)

9.15-10.30: Price-setting Microdata and Inflation Dynamics

- Keynote speech “Insights from the Prisma Network on Price Setting and Inflation Dynamics in the Euro Area” by [Luca Dedola \(ECB\)](#)
- CNB Experience with Web Scrapped Data by [Jan Brůha \(CNB\)](#)

10.30-11.00: Break

11.00-12.30: Session 1 on Financial Stability

- A Tale of Different Capital Ratios: How to Correctly Assess the Impact of Capital Regulation on Lending ([Martin Hodula, CNB](#))
 - ▶ Discussed by [Tomáš Havránek \(Charles University in Prague\)](#)
- Interaction of Cyclical and Structural Systemic Risks: Insights from Around and After the Global Financial Crisis ([Jan Janků, CNB](#))
 - ▶ Discussed by [Lev Ratnovski \(IMF\)](#)

12.30-13.45: Lunch

Today's program (2/2)

13.45-16.10: Session 2 on Monetary Policy

- Price Level Targeting with Imperfect Rationality: A Heuristic Approach (Vojtěch Molnár, CNB)
 - ▶ Discussed by Paul De Grauwe (LSE)
- Keynote speech “Trust and Monetary Policy” by Paul De Grauwe (LSE) and Yuemei Ji (University College London)
- Holding the Economy by the Tail: Analysis of Short- and Long-run Macroeconomic Risks (Michal Franta, CNB)
 - ▶ Discussed by Christian Matthes (Indiana University Bloomington)

ENJOY THE WORKSHOP!