
SNB Research Update

April 2015

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Spotlight

Dear Reader

I am pleased to present the latest SNB Research Update. The focus paper in this edition is ‘Quantification and characteristics of household inflation expectations in Switzerland’ by Rina Rosenblatt-Wisch and Rolf Scheufele. While inflation expectations play an important role in monetary policy making, the financial market instruments used to derive quantitative measures of inflation expectations – such as inflation-linked bonds – are not available in Switzerland. This means that inflation expectations can only be gleaned from surveys with households, businesses or forecasters. This focus paper offers guidance on the appropriate quantification of household inflation expectations derived from the Swiss consumer confidence survey, and is therefore of particular importance to monetary policy in Switzerland.

Economic research in general is of great importance to the SNB. In Department III, research activities are mainly concerned with issues of direct relevance to the operational implementation of monetary policy, and have traditionally focused on money markets and repo markets. An example of a recent SNB study in this field is ‘Re-use of collateral in the repo market’ by Lucas Marc Fuhrer, Basil Guggenheim and Silvio Schumacher.

However, in recent years, when the exchange rate floor against the euro was the SNB’s main policy instrument, international foreign exchange markets have often been at the centre of interest. An important example in this area is our work on structural changes in the primary interbank market for foreign exchange. The bulk of the SNB’s research effort, including the latter example, is ultimately for internal use only. This is true in particular of the research activity in Department III. Nevertheless, together with the research taking place in Departments I and II, it constitutes a highly valuable contribution to the overall success of the SNB’s operations.

DEWET MOSER

Alternate Member of the Governing Board
Department III, Zurich

SNB WORKING PAPERS NO. 2014-11

QUANTIFICATION AND CHARACTERISTICS OF HOUSEHOLD INFLATION EXPECTATIONS IN SWITZERLAND

RINA ROSENBLATT-WISCH AND ROLF SCHEUFELE

In Switzerland, household inflation expectations became better anchored after 2000. This is shown by Rina Rosenblatt-Wisch and Rolf Scheufele using the Swiss consumer confidence survey to study inflation expectations from end-1972 to end-2013. This overview shows why their results matter for the Swiss National Bank (SNB). It also indicates how the authors derive quantitative data from the survey where answers are qualitative in nature. In addition, it covers some characteristics of household inflation expectations in Switzerland.

Why do households' inflation expectations matter for monetary policy?

The National Bank Act requires the SNB to ensure price stability. The SNB defines price stability as an increase in the consumer price index (CPI) of less than 2 percent per annum. Why is expected inflation important for the conduct of monetary policy? Inflation expectations, in other words beliefs about future inflation, may directly influence observable inflation, i.e. observable changes in the price level of an economy. How can that be? For example, if households expect prices of certain goods and services to increase in the future, they may want to consume more of these goods and services today. Therefore, demand for these goods and services rises and firms have an incentive to increase prices. If goods and services become more expensive, employees may ask for higher wages in order to maintain a certain level of consumption. Higher wages means higher costs for the producing firms and thus further price increases, etc. This example shows how inflation expectations can be self-fulfilling.

Central banks have learned the necessity of credibly lowering and anchoring inflation expectations in order to deliver price stability. Inflation expectations are well anchored if they are closely connected with central banks' inflation targets.



Rolf Scheufele and Rina Rosenblatt-Wisch

Deriving quantitative data from surveys

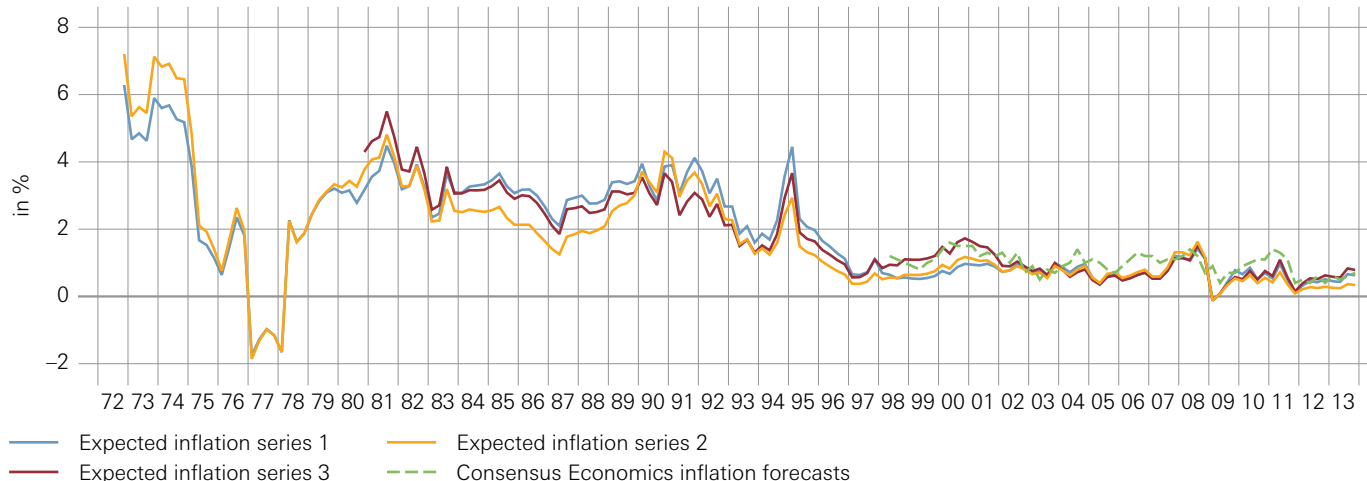
One way of gathering information on inflation expectations, which are generally unobservable, is through surveys. In Switzerland, such surveys are rare, and long time-series data hardly exist. The only major source of direct inflation expectations is the Swiss consumer confidence survey, which the State Secretariat for Economic Affairs (SECO) has been conducting quarterly since 1972.

The authors therefore rely on this survey. Qualitative questions are put to the households surveyed, e.g. "How, in your view, will prices change over the next 12 months? Will they i) rise sharply; ii) rise slightly; iii) remain virtually unchanged; iv) fall slightly; v) fall sharply; vi) don't know; vii) no answer." The answers to these qualitative questions then need to be transformed into quantitative numbers by means of statistical methods.

Using three such methods, the authors obtain three time series of expected inflation – as represented in the following chart. The chart also includes the mean of professionals' inflation forecasts since mid-1998 provided by Consensus Economics, a macroeconomic survey firm. The three series obtained by the authors exhibit similar properties to those of professional forecasters.

COMPARISON OF CALCULATED QUARTERLY SWISS HOUSEHOLD INFLATION EXPECTATIONS

One year ahead



Characteristics of Swiss inflation expectations

Econometric tests can be used to learn more about the characteristics of Swiss inflation expectations. This overview focuses on two such characteristics.

First, the formation of inflation expectations is not fully rational. Rationality means that households use all available information to form their expectations. This is neither the case over the full sample from 1972 to 2013, nor in the subsample beginning in 2000. Over the full sample, forecast errors, calculated as the difference between realised inflation and expected inflation, are persistent. This means that if households make forecast errors today, they will also make them tomorrow. Households thus do not use this particular information to improve their expectation formation. Moreover, households seem to systematically underestimate inflation, which also breaches the notion of rationality.

Second, in forming expectations, households may take some macroeconomic variables into consideration, such as capacity utilisation, the interest rate (LIBOR) and oil prices. There is a negative relation between interest rates and forecast errors. This can be interpreted in the following way: High interest rates lead to negative forecast errors, meaning that households predict an inflation rate that is too high in comparison to realised inflation. Interest rate hikes can imply tighter monetary policy and lower inflation in the future. Households underreact to tightening of interest rates in the sense that they predict an inflation rate in the future that lies above the realised one.

Policy insights

Households' inflation expectations in Switzerland became better anchored after 2000. Furthermore, disagreement about inflation expectations among individuals declined over the same period. There are several possible reasons for this, including: a) It is a direct result of the adjustment of the monetary policy framework by the SNB with an explicit definition of price stability, which helps anchor inflation expectations of consumers. b) Due to the lower persistence of actual inflation documented in this paper, inflation in general may have become harder to predict. People might therefore not adjust their expectations frequently, i.e. they stick to a certain trend in inflation.

SNB WORKING PAPERS NO. 2014-04

THE COLLATERAL COSTS OF CLEARING

CYRIL MONNET AND THOMAS NELLEN

In this working paper, we study the three generic clearing arrangements in the presence of two-sided limited commitment: simple bilateral clearing, segregated collateral clearing through a third party, and – most sophisticated of all – central counterparty (CCP) clearing. Clearing secures the settlement of obligations from over-the-counter (OTC) forward contracts that smooth the income of risk-averse agents. Clearing requires collateral to guarantee settlement; this is costly, as it reduces income from investment. While welfare is greater under more sophisticated clearing arrangements, we find that these are also more demanding in terms of collateral.

SNB WORKING PAPERS NO. 2014-05

TRADE LINKAGES AND THE GLOBALISATION OF INFLATION IN ASIA AND THE PACIFIC

RAPHAEL A. AUER AND AARON MEHROTRA

Cf. p. 8.

SNB WORKING PAPERS NO. 2014-06

CARRY TRADE ACTIVITIES: A MULTIVARIATE THRESHOLD MODEL ANALYSIS

MATTHIAS GUBLER

In this empirical study, we analyse the relationship between carry trade positions and some key financial as well as macroeconomic variables using a multivariate threshold model. It is often stated that the Swiss franc serves as a funding currency. We therefore focus on carry trades based on the USD/CHF and EUR/CHF currency pairs over the period from 1995 to mid-2008. We conclude that carry trades are driven to a large extent by changes in investors' risk sentiment, movements in stock market prices and exchange rate fluctuations. The adjustments of carry trade positions to unexpected movements in these variables vary between periods of high and low interest-rate differentials (IRD). While a positive shock to the IRD is followed by a rise in carry trade positions during a period of low IRD, it will trigger a decline in these positions during a period of high IRD. These results suggest that the shock to the IRD itself is not enough to compensate investors for the increased foreign exchange risk. Moreover, a positive stock market price shock is associated with a rise in carry trade positions, since investors may use stock portfolios as collateral for liquidity. A sudden unwinding of carry trades leads to significant Swiss franc appreciation. Furthermore, carry trade activities 'Granger-cause' the nominal exchange rate in periods of low IRD. The Granger causality test results further indicate feedback trading.

REAL EXCHANGE RATES AND FUNDAMENTALS: ROBUSTNESS ACROSS ALTERNATIVE MODEL SPECIFICATIONS

KONRAD ADLER AND CHRISTIAN GRISSE

This paper explores the robustness of behavioural equilibrium exchange rate (BEER) models, focusing on a panel specification with Swiss franc real bilateral rates as dependent variables. We use Bayesian model averaging to illustrate model uncertainty, and employ real exchange rates computed from price level data to explore robustness to the inclusion or exclusion of fixed effects. We find that the estimated coefficients – and therefore also the implied equilibrium values – are sensitive to (1) the combination of explanatory variables included in the model, (2) the set of currencies included in the panel and (3) the inclusion of fixed effects. Increases in government consumption and net foreign assets and improvements in the terms of trade in Switzerland relative to foreign countries are associated with a Swiss franc real appreciation, as predicted by economic theory. By contrast, several macroeconomic variables commonly thought to be linked to real exchange rates are found not to exhibit a robust relationship with Swiss franc real rates. Our findings can help policymakers in understanding the uncertainty associated with estimates of equilibrium exchange rates.

DETERMINANTS OF THE SWISS FRANC REAL EXCHANGE RATE

TOMMASO MANCINI GRIFFOLI, CHRISTOPH MEYER, JEAN-MARC NATAL AND ATTILIO ZANETTI

We conduct an empirical investigation of the determinants of the Swiss franc real exchange rate. Theory and related empirical papers suggest various specific factors as potential determinants. We select some of these factors, and test their significance and magnitude in affecting the course of the CHF real exchange rate. Results stemming from a co-integration approach point to terms of trade and relative government spending as the most significant explanatory variables. Balassa-Samuelson effects do not play any significant role. Our results also confirm that this kind of empirical approach is sensitive to the choice of explanatory variables, panel countries and sample periods. In our case, the importance of GDP per capita and net foreign assets as explanatory variables depends on the inclusion in the panel of the JPY/CHF exchange rate.

SKILL-BIASED TECHNOLOGICAL CHANGE AND THE REAL EXCHANGE RATE

MATTHIAS GUBLER AND CHRISTOPH SAX

We sketch a model that shows how skill-biased technological change may reverse the classic Balassa-Samuelson effect, leading to a negative relationship between productivity in the tradable sector and the real exchange rate. In a small open economy, export goods are produced by high-skilled labour, in conjunction with capital and low-skilled labour, and are traded for imported consumption goods. Non-tradable services are produced by low-skilled labour only. A rise in the productivity of capital has two effects: (1) It may reduce the demand for labour in the tradable sector if the substitutability of low-skilled labour and capital in the tradable sector is high; and (2) it increases the demand for non-tradables and associated labour input. Overall demand for low-skilled labour declines if the labour force of the tradable sector is large relative to the labour force of the non-tradable sector. This leads to lower wages and thus to lower prices and real exchange rate depreciation.

EXCHANGE RATE AND PRICE DYNAMICS IN A SMALL OPEN ECONOMY - THE ROLE OF THE ZERO LOWER BOUND AND MONETARY POLICY REGIMES

GREGOR BÄURLE AND DANIEL KAUFMANN

We analyse nominal exchange rate and price dynamics after risk premium shocks with short-term interest rates constrained by the zero lower bound (ZLB). In a small-open-economy DSGE model, temporary risk premium shocks lead to shifts of the exchange rate and the price level if a central bank implements an inflation target by means of a traditional Taylor rule. These shifts are strongly amplified and become more persistent once the ZLB is included in the model. We also provide empirical support for this finding. Using a Bayesian VAR for Switzerland, we find that responses of the exchange rate and the price level to a temporary risk premium shock are larger and more persistent when the ZLB is binding. Our theoretical discussion shows that alternative monetary policy rules that stabilise price-level expectations are able to dampen exchange rate and price fluctuations when the ZLB is binding. This stabilisation can be achieved by including either the price level or, alternatively, the nominal exchange rate in the policy rule.

QUANTIFICATION AND CHARACTERISTICS OF HOUSEHOLD INFLATION EXPECTATIONS IN SWITZERLAND

RINA ROSENBLATT-WISCH AND ROLF SCHEUFELE

Cf. pp. 2 and 9.

EXCHANGE RATE RETURNS AND EXTERNAL ADJUSTMENT: EVIDENCE FROM SWITZERLAND

CHRISTIAN GRISSE AND THOMAS NITSCHKA

This paper studies the ability of external imbalances to indicate subsequent exchange rate returns. We propose a simple twist of the Gourinchas and Rey (2007) approximation to the intertemporal budget constraint which is valid for countries that are net creditors (or net debtors) consistently throughout the sample. Our approach offers two advantages. First, it does not require the specification of trend shares for external assets, external liabilities, exports and imports. This avoids a potential source of measurement error and can make the approximation more accurate. Second, it can be applied to countries which have historically been simultaneously net exporters and net creditors (or equivalently net importers and net debtors) on average, with the usual assumption that the no-Ponzi condition is satisfied asymptotically. This is relevant for a number of countries, e.g. Switzerland, where the original Gourinchas and Rey (2007) approximation cannot be used. We find that measures of deviations from trends in Swiss net foreign assets and net exports provide signals for future Swiss franc nominal effective exchange rate movements, both in and out of sample.

HAVE INVESTORS BEEN LOOKING FOR EXPOSURE TO SPECIFIC COUNTRIES SINCE THE GLOBAL FINANCIAL CRISIS? - INSIGHTS FROM THE SWISS FRANC BOND MARKET

THOMAS NITSCHKA

Bonds of Swiss non-government borrowers offered higher daily excess returns ('alphas') than suggested by their sensitivities to standard risk factors over the sample period from 2007 to 2014. By contrast, comparable bonds (same currency denomination and credit rating category) issued by foreign entities did not offer significant risk-adjusted returns and exhibited markedly different sensitivities to Swiss and global risk factors. However, the positive risk-adjusted returns on Swiss bonds disappear when controlling for measures of uncertainty such as stock price volatility. Swiss bond prices rose when stock market volatility was high, thus offering insurance in times of uncertainty.

CAPITAL FLOW WAVES TO AND FROM SWITZERLAND BEFORE AND AFTER THE FINANCIAL CRISIS

PINAR YEŞİN

This paper first shows that capital inflows to and outflows from financial centres were disproportionately affected by the global financial crisis. Switzerland was no exception. The paper then identifies waves of capital flows to and from Switzerland from 2000:Q1 to 2014:Q2 by using a simple statistical method. The analysis shows that private capital inflows to and outflows from Switzerland have become exceptionally muted and less volatile since the crisis. Further, strong and long-lasting 'home bias' behaviour can be observed for both Swiss and foreign investors. By contrast, net private capital flows have shown significantly higher volatility since the financial crisis, frequently registering extreme movements driven by extreme movements in bank lending flows. These findings suggest that the financial crisis generated a breaking point for capital flows to and from Switzerland.

RE-USE OF COLLATERAL IN THE REPO MARKET

LUCAS MARC FUHRER, BASIL GUGGENHEIM AND SILVIO SCHUMACHER

This paper introduces a methodology to estimate the re-use of collateral based on actual transaction data. With a comprehensive dataset from the Swiss franc repo market, we are able to provide the first systematic empirical study on the re-use of collateral. We find that re-use was most popular prior to the financial crisis, when roughly 10% of the outstanding interbank volume was based on re-used collateral. Furthermore, we show that re-use increases with the scarcity of collateral. By giving an estimate of collateral re-use and explaining its drivers, the paper contributes to the ongoing debate on collateral availability.

**REAL EXCHANGE RATE PERSISTENCE: THE CASE OF
THE SWISS FRANC-US DOLLAR RATE**

KATARINA JUSELIUS AND KATRIN ASSENMACHER-WESCHE

Asset prices tend to undergo wide swings around long-run equilibrium values, which can have detrimental effects on the real economy. To get a better understanding of how the financial sector and the real economy interact, this paper models the long swings in the Swiss franc-US dollar foreign currency market using the I(2) Cointegrated VAR model. The results show strong evidence of self-reinforcing feedback mechanisms in the Swiss-US foreign exchange market that are consistent with the observed pronounced persistence in Swiss-US parity conditions. Generally, the results provide support for models allowing expectations formation in financial markets to be based on imperfect information.

PUBLICATIONS IN JOURNALS

VICTORIA ATANASOV AND THOMAS NITSCHKA

FOREIGN CURRENCY RETURNS AND SYSTEMATIC RISKS

Journal of Financial and Quantitative Analysis (forthcoming)

We apply an empirical approximation on the intertemporal CAPM to show that cross-sectional dispersion in currency returns can be rationalised by differences in currency excess returns' sensitivities to the market return's cash-flow news component. This finding echoes recent explanations of the value and growth stock-market anomaly. The distinction between cash-flow news and discount-rate news is key to jointly explaining average stock and currency returns. Our analysis reveals a common source of systematic risk in stock and foreign currency returns that is reflected in the market return's cash-flow news component.

CHRISTIAN HEPENSTRICK AND ALEXANDER TARASOV

PER CAPITA INCOME AND THE EXTENSIVE MARGIN OF BILATERAL TRADE

Canadian Journal of Economics (forthcoming)

This paper quantitatively explores the role of the demand structure in explaining the relationship between an importer's per capita income and the extensive margin of bilateral trade. The underlying mechanism is based on the fact that agents expand the set of goods they consume with income. This in turn affects the structure of a country's import demand and therewith the extensive margin of trade. We formalise this intuition by incorporating preferences that allow for binding non-negativity constraints into an otherwise standard Ricardian multi-country model. We quantify the model using the data on US consumer expenditures and aggregate values of bilateral trade flows, and find that the behaviour of the model's extensive margin of bilateral trade is consistent with the data (as opposed to the standard model). Two popular counterfactual experiments – lower trade costs and the rise of China and India – demonstrate that the mechanism outlined in this paper is indeed quantitatively important.

RAPHAEL A. AUER AND AARON MEHROTRA, 2014

TRADE LINKAGES AND THE GLOBALISATION OF INFLATION IN ASIA AND THE PACIFIC

Journal of International Money and Finance 49(A): 129-151

Some observers argue that increased real integration has led to greater co-movement of prices internationally. We examine the evidence for cross-border price spillovers among economies participating in the pan-Asian cross-border production networks. Starting with country-level data, we find that both producer price and consumer price inflation rates move more closely together between those Asian economies that trade more with one another, i.e. that share a higher degree of trade intensity. Next, using a novel data set based on the World Input-Output Database (WIOD), we examine the importance of the supply chain for cross-border price spillovers at the sectoral level. We document the increasing importance of imported intermediate inputs for economies in the Asia-Pacific region and examine the impact on domestic producer prices of changes in costs of imported intermediate inputs. Our results suggest that real integration through the supply chain matters for domestic price dynamics in the Asia-Pacific region.

CHRISTIAN GLOCKER AND PASCAL TOWBIN, 2015

RESERVE REQUIREMENTS AS A MACROPRUDENTIAL INSTRUMENT – EMPIRICAL EVIDENCE FROM BRAZIL

Journal of Macroeconomics 44: 158-176

Emerging market central banks are often reluctant to raise interest rates when facing credit booms driven by capital inflows, and they instead use reserve requirements as an additional instrument. We compare the macroeconomic effects of interest rate and reserve requirement shocks by estimating a structural vector autoregressive model for Brazil. For both instruments, discretionary tightening results in a credit decline. Contrary to an interest rate shock, however, a positive reserve requirement shock leads to an exchange rate depreciation, a current account improvement, and an increase in prices. The different effects highlight the role of reserve requirement policy as a complement to rather than a substitute for interest rate policy. The results support the bank lending channel as the main transmission mechanism for reserve requirement policy.

Many statistical applications require the forecast of a random variable of interest over several periods into the future. The sequence of individual forecasts, one period at a time, is called a path forecast, where the term path refers to the sequence of individual future realisations of the random variable. The problem of constructing a corresponding joint prediction region has been rather neglected in the literature so far: such a region is supposed to contain the entire future path with a prespecified probability. We develop bootstrap methods to construct joint prediction regions. The resulting regions are proven to be asymptotically consistent under a mild high-level assumption. We compare the finite-sample performance of our joint prediction regions with some previous proposals via Monte Carlo simulations. An empirical application to a real data set is also provided.

This paper asks how variations in trade openness contribute to cross-country income differences. We approach this question using counterfactual experiments within a quantified general equilibrium model of trade. We find that trade costs gain their relevance only by amplifying the effects of existing differences in endowments, population sizes and technologies. If, for example, market entry costs were the same in all countries, inequality would be about 13% lower. Variable trade costs are found to have a similar effect. In contrast, if countries differed only by their degree of trade openness, the resulting variance of per capita income would be negligible.

We use a panel of 21 OECD countries from 1970 to 2009 to investigate the effects of different fiscal adjustment strategies on long-term interest rates – a key fiscal indicator reflecting the costs of government debt service. As Europe's sovereign debt crisis has shown, governments confronted with high deficits and rising debt may be forced to enact fiscal adjustments in order to avoid increasing market pressure and solvency problems. Over the last four decades, such measures taken by governments in OECD countries have varied in duration, size, composition and in their success to re-establish fiscal sustainability. We find that large and expenditure-based adjustments lead to substantially lower long-term interest rates. Small and revenue-based measures do not have an effect on interest rates. Financial markets thus only seem to value strict and decisive measures – a clear sign that the government's pledge to cut the deficit is credible.

Inflation expectations are a key variable in conducting monetary policy. However, these expectations are generally unobservable and only certain proxy variables exist, such as surveys on inflation expectations. This article offers guidance on the appropriate quantification of household inflation expectations in the Swiss Consumer Survey, where answers are qualitative in nature. We apply and evaluate different variants of the probability approach and the regression approach, we demonstrate that models that include answers on perceived inflation and allow for time-varying response thresholds yield the best results, and we show why the originally proposed approach of Fluri and Spöndli (1987) has resulted in heavily biased inflation expectations since the mid-1990s. Furthermore, we discuss some of the key features of Swiss household inflation expectations, i.e. the fact that there has been a shift in expectation formation since 2000 (expectations are better anchored and less adaptive, and there is lower disagreement of expectations). We suggest that this may be linked to the Swiss National Bank's adjustment of its monetary policy framework around this time. In addition, we outline how expectation formation in Switzerland is in line with the sticky information model, where information disseminates slowly from professional forecasters to households.

AUSTERITY, INEQUALITY AND POLITICS

European Journal of Political Economy 35: 1-22

We analyse the effect of budget consolidation on income inequality in 17 OECD countries while controlling for political and ideological differences. We find that the impact of fiscal adjustments on the Gini coefficient does not depend on the political party in power, but on the type of government. Austerity measures by coalition governments significantly reduce income inequality when compared with single party and minority governments, even when they are successful or expenditure based. While coalition governments are less successful in reducing structural budget deficits, they perform much better in terms of addressing distributional concerns.

PETRA GERLACH-KRISTEN

THE IMPACT OF ECB CRISIS MEASURES ON EURO-AREA CDS SPREADS

Financial Markets and Portfolio Management (forthcoming)

This paper studies euro-area CDS spreads during the financial crisis with the aim of discovering which of the ECB's open-market operations reduced bank and government spreads. After controlling for potential contagion across the financial system, it is found that effects vary across operations. Purchases under the Covered Bond Purchase Programme seem to have reduced spreads, as did the announcement of the Securities Market Programme. Actual SMP purchases, however, appear to have raised spreads, perhaps because markets took them as a sign of policymaker concern about the financial system. The same is true for the announcement of the 3-year repos.

NIKOLA MIRKOV, 2014

INTERNATIONAL FINANCIAL TRANSMISSION OF THE FED'S MONETARY POLICY

International Journal of Economic Sciences and Applied Research 7(2): 7-49

This paper proposes a way to study the transmission mechanism of the US monetary policy to foreign yield curves. It elaborates the high-frequency identification of monetary policy shocks from Piazzesi (2005) in an international setting. The shocks are extracted from a two-country term structure model, and the procedure is illustrated on the US-UK daily data.

FISCAL ADJUSTMENTS AND THE PROBABILITY OF SOVEREIGN DEFAULT

Kyklos 68(1): 81-110

Based on probit estimates, this paper analyses the effects of fiscal consolidation on the probability of sovereign default in the short run. Using a panel of 104 developing countries from 1980 to 2009 and controlling for various economic, fiscal and political factors, we find that fiscal adjustments in general do not significantly reduce the probability of default even if they are large. Instead, the composition of budget consolidation is decisive in reducing default risk. Expenditure-based adjustments are not successful, while revenue-based adjustments lower the probability of default in the following year by 36 to 55 percent. This finding also holds when economic growth is low or government debt is high as well as when IMF lending is taken into account.

PETRA GERLACH-KRISTEN AND RICHHILD MÖSSNER, 2014

INFLATION EXPECTATIONS, CENTRAL BANK CREDIBILITY AND THE GLOBAL FINANCIAL CRISIS

Swiss Journal of Economics and Statistics 150(2): 55-87

Long-run inflation expectations should not respond to economic news if the central bank is seen as credibly committed to stabilising inflation. In this paper we find that since the onset of the global financial crisis, medium and long-term inflation expectations implied by inflation swaps in the euro area, the United Kingdom and the United States have become less responsive to actual inflation and changes in oil and food prices. This suggests that the credibility of the central banks in these economies remains intact, despite large increases in their balance sheets due to unconventional monetary policy measures and the introduction of explicit forward guidance at the zero lower bound. We also find an increase in autocorrelation of inflation expectations, which suggests that shocks have a longer-lasting impact than before the financial crisis.

DECIPHERING FINANCIAL CONTAGION IN THE EURO AREA DURING THE CRISIS

The Quarterly Review of Economics and Finance 55: 108-123

Financial market interdependence has been at the epicentre of the crisis in the euro area. This paper tests for the existence of financial contagion during this crisis, defined as the international transmission of country-specific shocks beyond the normal channels of financial interdependence. Since contagion relates purely to country-specific shocks, we combine the standard contagion test of Favero and Giavazzi (2002) with a narrative approach to separate out global and euro area shocks from country-specific shocks. Financial contagion has been widespread during the crisis in the euro area. Three quarters of country-specific shocks are contagious over the whole sample period. But the proportion of contagious country-specific shocks has fallen markedly since the “whatever it takes” announcement in July 2012.

THOMAS J. JORDAN, 2014

KRISENRESISTENZ UND WIRTSCHAFTSREFORMEN: LEHREN AUS DER SCHWEIZERISCHEN ERFAHRUNG

In *Europäische Wirtschaftspolitik der Zukunft: Festschrift zum 70. Geburtstag von Ewald Nowotny*, Eds. Patrick Horvath, Peter Mooslechner, Andreas Staribacher, 140-147. Wien: New Academic Press

Der Beitrag beleuchtet die Erfahrungen der Schweiz während der jüngsten Finanz- und Wirtschaftskrise. Die SNB wurde in dieser Zeit ungemein gefordert. Mit einer resoluten und dezidierten Geldpolitik gelang es, Deflationsrisiken abzuwehren und die Schweizer Wirtschaft vor grossen Verwerfungen zu bewahren. Die Wirksamkeit der Geldpolitik wurde dabei von den strukturellen Stärken der Schweizer Wirtschaft begünstigt. Viele dieser Stärken sind das Ergebnis von Reformen, die als Reaktion auf die wirtschaftliche Schwächephase der Neunzigerjahre durchgeführt wurden.

JEAN-PIERRE DANTHINE AND JOHN B. DONALDSON, 2015

INTERMEDIATE FINANCIAL THEORY

Oxford: Academic Press

Intermediate Financial Theory, Third Edition is intended primarily for Master level students with a professional orientation. The third edition includes new material on the asset pricing implications of behavioural finance perspectives, recent developments in portfolio choice, derivatives-risk neutral pricing research, and implications of the 2008 financial crisis.

PAST EVENTS

7–8 NOVEMBER 2014

JME-SCG-SNB CONFERENCE ON 'ASSET PRICE FLUCTUATIONS AND ECONOMIC POLICY'

HOST: STUDY CENTER GERZENSEE, GERZENSEE

The Journal of Monetary Economics, together with the Study Center Gerzensee and the SNB, held the JME-SCG-SNB Conference at the Study Center Gerzensee on 7/8 November 2014. The theme of the conference was 'Asset Price Fluctuations and Economic Policy'. Jean-Pierre Danthine, Vice Chairman of the SNB Governing Board, presented a dinner address. The organisation committee of the conference consisted of Jordi Gali (CREI-Universitat Pompeu Fabra), Dirk Niepelt (Study Center Gerzensee), and Marcel Savioz (SNB).

21 NOVEMBER 2014

WORKSHOP ON FOREIGN CURRENCY LENDING SINCE THE FINANCIAL CRISIS

HOST: SWISS NATIONAL BANK, ZURICH

The SNB held a one-day workshop on foreign currency lending on 21 November 2014 in Zurich. The workshop brought together a select group of academics from across the globe and representatives of European central banks. Six academic papers with the latest research findings were presented and discussed. Furthermore, a panel of policymakers discussed the financial reforms undertaken in Europe since the financial crisis to contain risks from foreign currency lending. Jean-Pierre Danthine, Vice Chairman of the SNB Governing Board, gave a speech on current issues regarding financial stability at the conference dinner. The programme, papers and presentations can be found online at www.snb.ch, *Research, Academic conferences, Workshop on Foreign Currency Lending since the Financial Crisis*. The conference was organised by Andreas Fischer (SNB) and Pinar Yeşin (SNB).

19 DECEMBER 2014

9TH END-OF-YEAR CONFERENCE OF SWISS ECONOMISTS ABROAD

HOST: SWISS NATIONAL BANK, ZURICH

The 9th end-of-year conference of the Network of Swiss Economists Abroad, which is usually hosted alternately by Swiss universities, took place on 19 December 2014 at the SNB in Zurich. The network consists of economists with strong ties to Switzerland who are currently conducting research abroad. Its yearly conference allows its members and their colleagues from Swiss universities to exchange ideas on their latest research.

Thomas J. Jordan, Chairman of the SNB Governing Board, held the welcome address at the 2014 conference. He emphasised the importance of research at both universities and the SNB, and highlighted four areas in which research plays a significant role at the SNB: inflation forecasting, financial stability, trade balance and money markets.

Presentations were made on research in various fields of economics in four parallel sessions. Clemens Sialm, University of Texas at Austin and Stanford University, gave a keynote address about 'Defined contribution pension plans: structure, incentives, and performance'.

More information about this conference and the network is available at www.swisseeconomistsabroad.org.

4–5 MAY 2015

12TH ANNUAL NATIONAL BANK OF POLAND-SNB JOINT
SEMINAR ON 'INFLATION FORECASTING MODELS'
HOST: SWISS NATIONAL BANK, ZURICH

26–27 JUNE 2015

NATIONAL BUREAU OF ECONOMIC RESEARCH
INTERNATIONAL SEMINAR ON MACROECONOMICS
HOST: SWISS NATIONAL BANK, ZURICH

9–10 JULY 2015

SNB-BIS-CEPR-FRBD CONFERENCE
(SNB, BANK FOR INTERNATIONAL SETTLEMENTS,
CENTRE FOR ECONOMIC POLICY RESEARCH, FEDERAL
RESERVE BANK OF DALLAS)
HOST: SWISS NATIONAL BANK, ZURICH

25–26 SEPTEMBER 2015

SNB RESEARCH CONFERENCE 2015
HOST: SWISS NATIONAL BANK, ZURICH

4–6 NOVEMBER 2015

JOINT CENTRAL BANK CONFERENCE
(FEDERAL RESERVE BANK OF CLEVELAND, BANK OF
CANADA, FEDERAL RESERVE BANK OF ATLANTA, SNB)
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