# Spillovers from UMP

- Time dimension. No risk of a domestic squeeze. Carry more attractive.

- Financial structure and prudential regulation key to provide policy room. Currency exposures. Exchange rate flexibility.

- Synchronicity of cycles and role of China. Is decoupling good or bad?

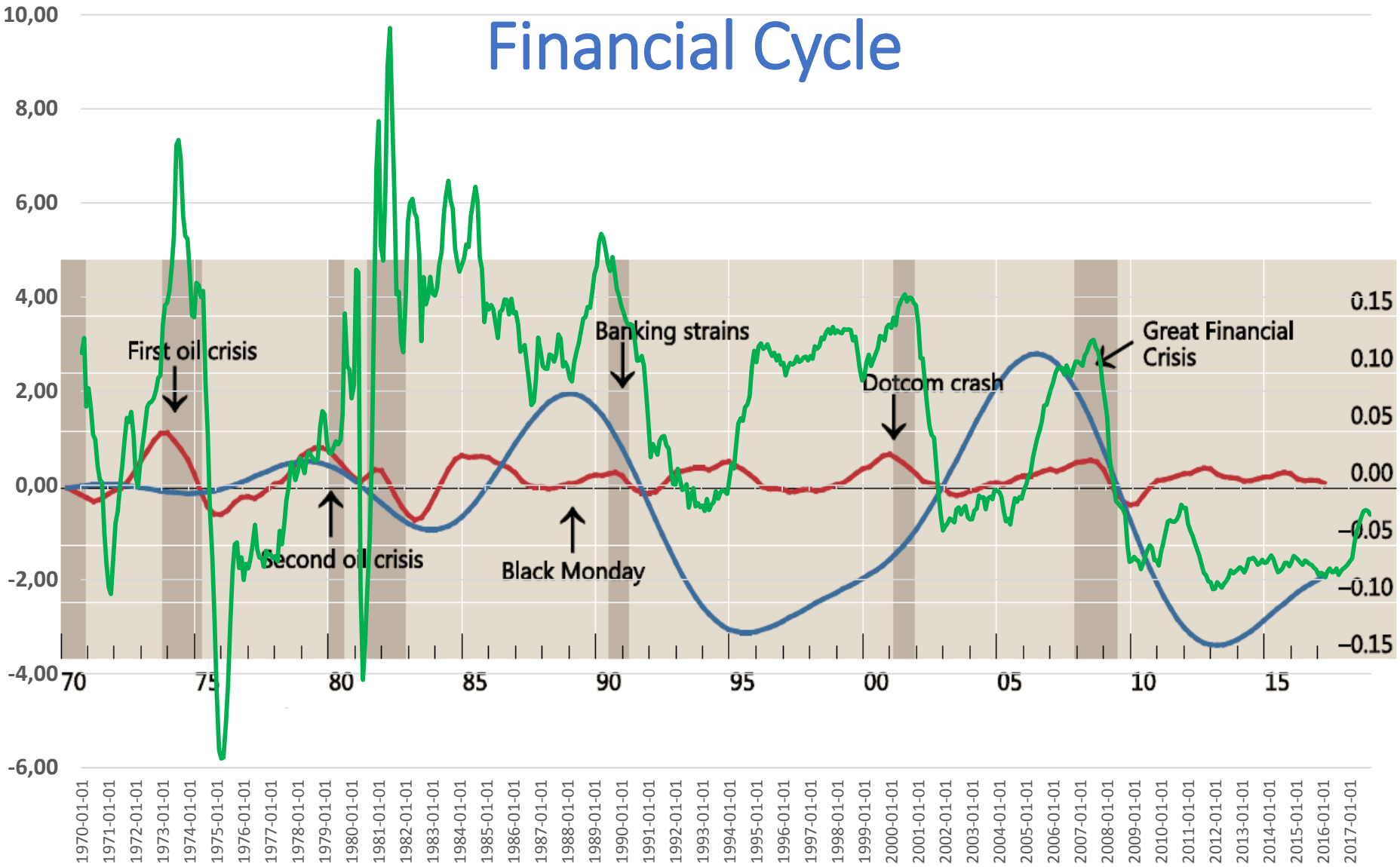
# Financial Cycle: MoP versus MaP

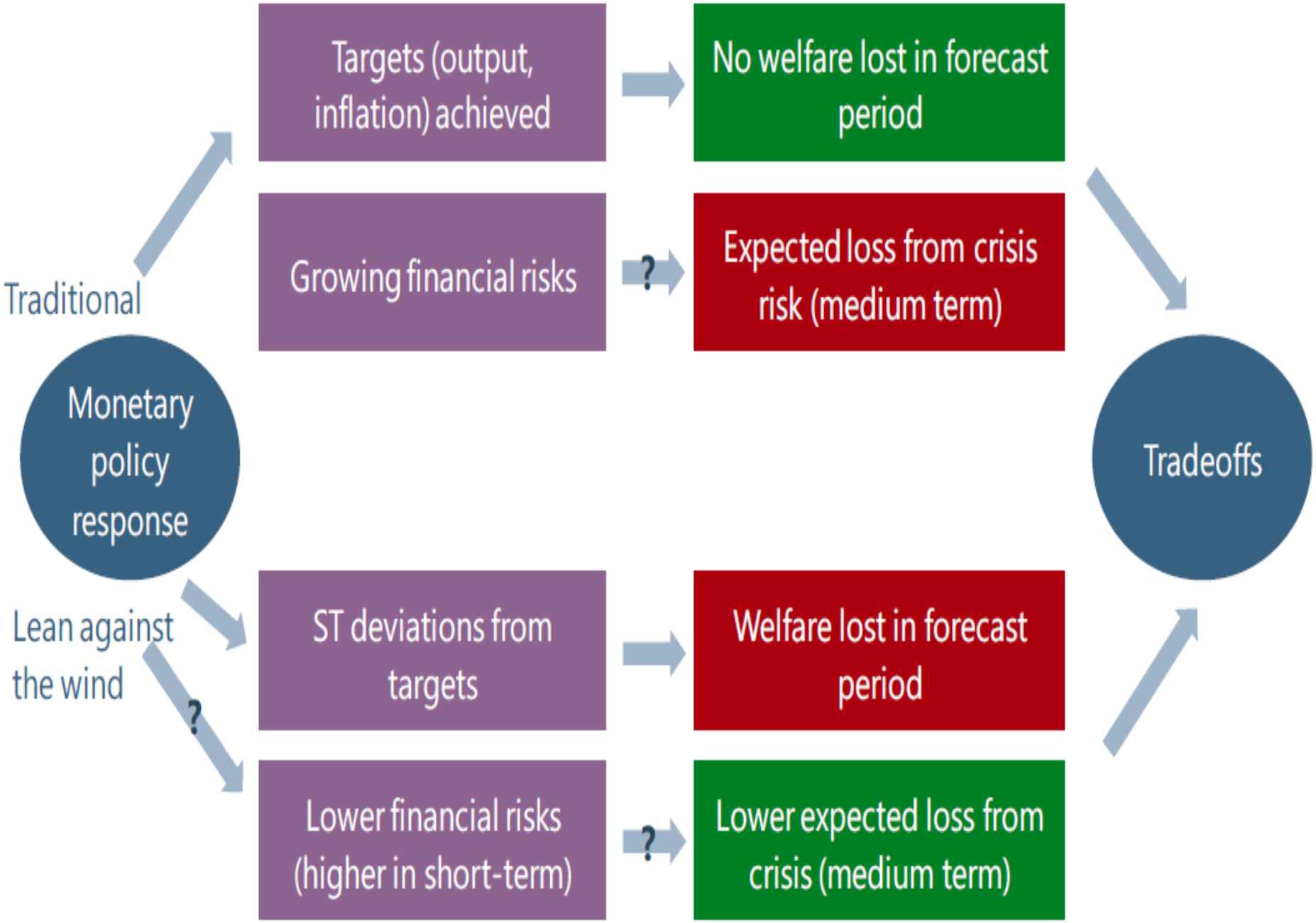
- MoP can be counterproductive in SME
- MaP and CFM more promising
- ER flexibility when possible

# Lean versus Clean

- Should central banks should care about financial stability? YES.
- MoP? NOT NECESSARILY.

# Real Federal Fund Rate and the Financial Cycle




Traditional
Monetary policy response
Lean against the wind
?
Targets (output, inflation) achieved
Growing financial risks
ST deviations from targets
Lower financial risks (higher in short-term)
?
?
No welfare lost in forecast period
Expected loss from crisis risk (medium term)
Welfare lost in forecast period
Lower expected loss from crisis (medium term)
Tradeoffs

# Who should do MaP?

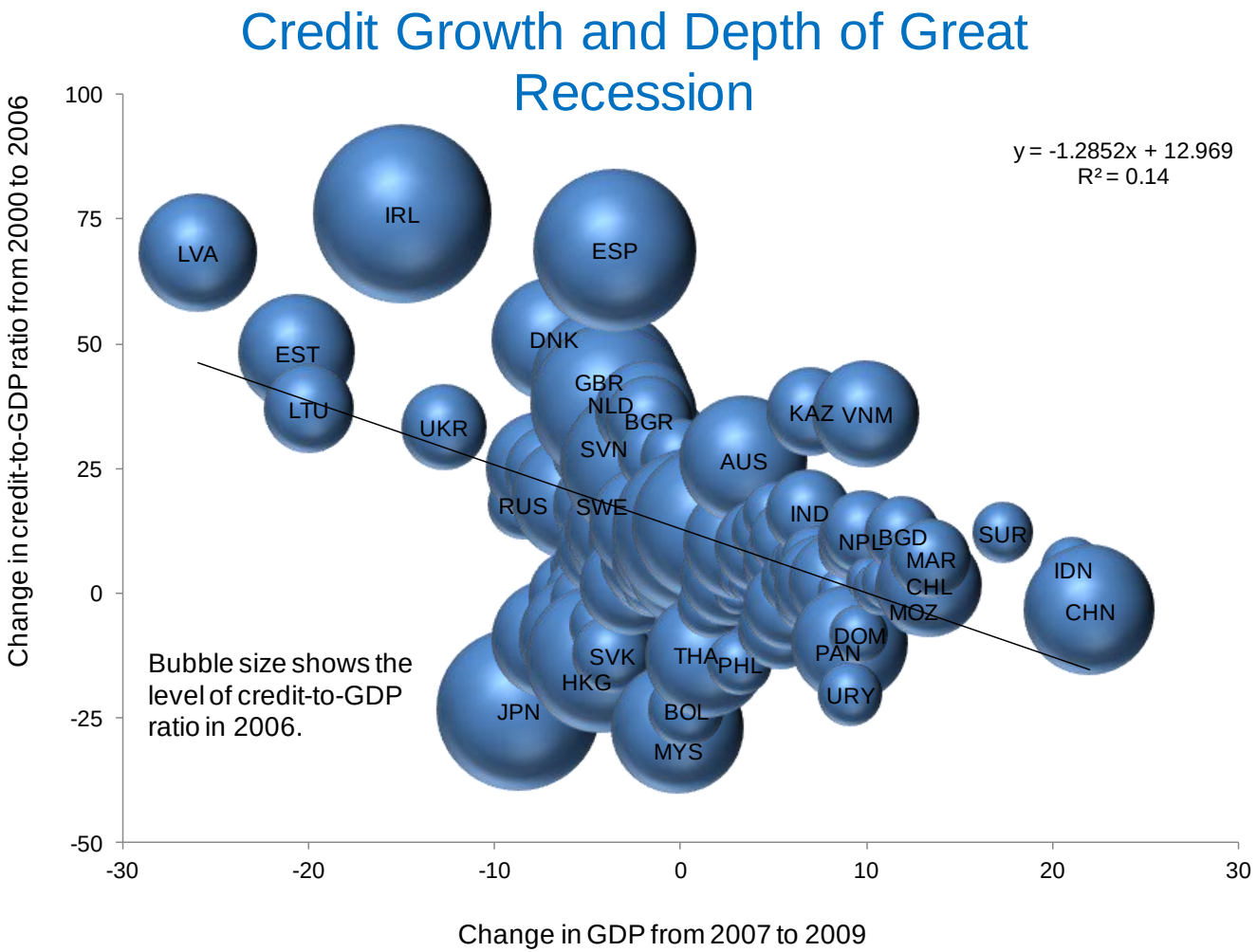
- Tradeoff between benefits from coordination/information sharing and credibility/clarity of mandate.

- BoE solution tries to find ideal mix.

# MaP measures design

- Focus on leverage rather than asset prices
  - DTI versus LTV
  - Capital Surcharges
- Building buffers easier than stopping booms (but not mutually exclusive)

# Crisis: severity in line with magnitude of credit booms




Source: Dell'Ariccia et al. EP 2017