

**Comments to Lars E. O. Svensson's paper:
“The relation between Monetary Policy
and Financial Stability Policy”**

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- **Basic Question of the paper:**
 - Relation between monetary policy and financial-stability policy.

- **Answer:**
 - They are different policies, with different goals, different suitable instruments, in many countries with different responsible authorities.
 - There is interaction between them.
 - Monetary policy should not be used for financial-stability purposes.

- **Outline of the paper:**

- **Section II:** How can different policies be distinguished?
- **Section III:** How can monetary and financial-stability policies be distinguished? Goals, instruments, authorities. Financial stability from a broad perspective (micro and macroprudential, resolution).
- **Section IV:** Should monetary policy have a third goal, financial stability? No. Monetary policy or central banks. Why? Monetary policy cannot achieve financial stability. Price stability does not imply financial stability. LAW not recommended.

Important result: When financial stability policy is weak, the margin of costs of LAW over benefits are likely to be even larger.

- **Section V:** Should both policies be conducted separately or coordinated? Separately (crisis prevention versus crisis management).
- **Section VI:** Should monetary and financial-stability policies be conducted by the same authority or by different authorities? Optimal to have separate decision-making bodies.
- **Section VII:** What if monetary policy would pose a threat to financial stability? Rare occasions. Clear responsibilities.
- **Section VIII:** The Swedish experience, cost/benefits of LAW.
- **Conclusions:** Not ask too much from monetary policy.

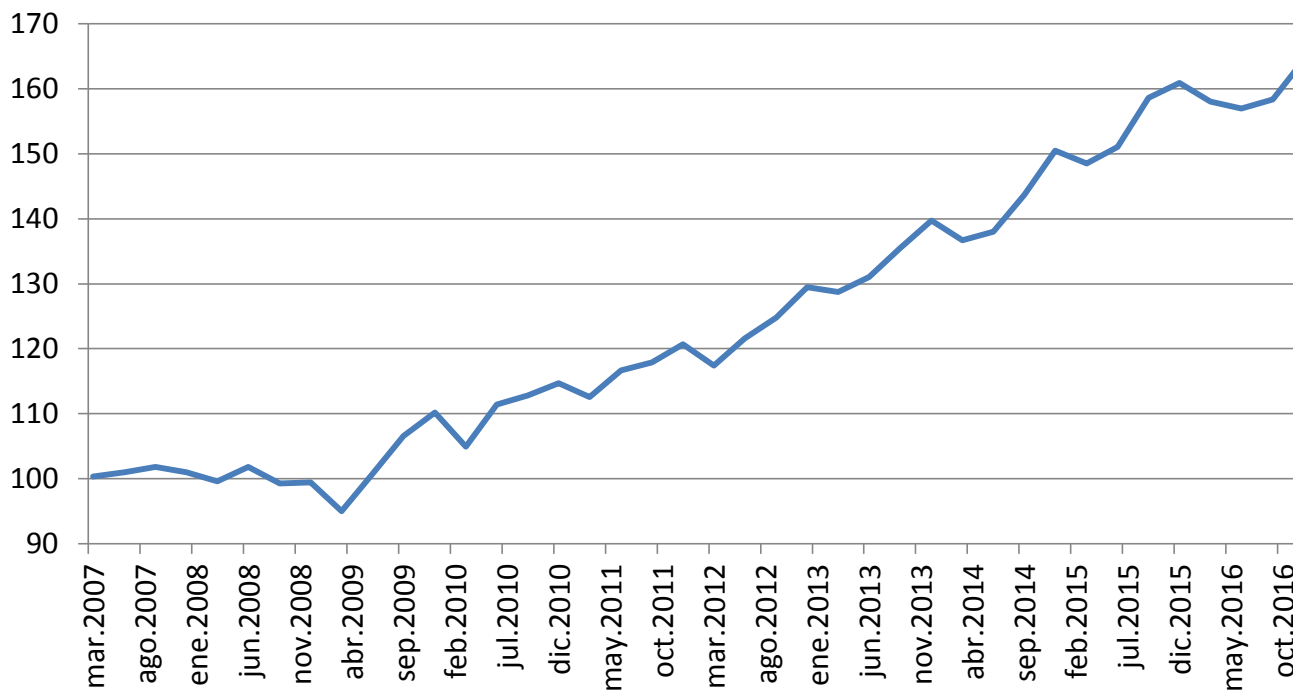
- **My comments:**

1. I agree (policy paper)
2. The Chilean Experience.
3. Some caveats.

- **The Chilean Experience**
 - Two different policies.
 - Different Instruments.
 - Institutional framework.

Housing Prices

House Price Index
(2008=100, Quarterly)



Source: Central Bank of Chile

- **The Chilean Experience**

- Housing Prices.

- Monetary policy never thought of as a possible instrument.

- The role of the Financial Stability Council.

- The Bank Supervisory Agency implemented measures.

- **Some Issues**

- Institutional framework.
- History matters.
- Financial stability as a mandate of the CB.
- Instruments: Reserve requirements, liquidity requirements, capital flow management policies, exchange rate policy, maturity mismatches, countercyclical capital buffer (*).
- Financial Stability Report.
- Should the CB participate in the FSC?
- Macro and Microprudential .