Accepted Manuscript

Non-standard monetary policy, asset prices and macroprudential policy in a monetary union

L. Burlon, A. Gerali, A. Notarpietro, M. Pisani

PII: S0261-5606(18)30372-3
DOI: https://doi.org/10.1016/j.jimonfin.2018.06.005
Reference: JIMF 1924

To appear in: *Journal of International Money and Finance*

Please cite this article as: L. Burlon, A. Gerali, A. Notarpietro, M. Pisani, Non-standard monetary policy, asset prices and macroprudential policy in a monetary union, *Journal of International Money and Finance* (2018), doi: https://doi.org/10.1016/j.jimonfin.2018.06.005

Non-standard monetary policy, asset prices and macroprudential policy in a monetary union

L. Burlon A. Gerali A. Notarpietro M. Pisani*

March 29, 2018

Abstract

This paper evaluates the interaction of non-standard monetary measures and macroprudential policy in a monetary union by developing a two-region model of the euro area (EA) and simulating the Eurosystem's Asset Purchase Programme (APP). In each region some households are subject to a borrowing constraint, and the local real estate is used as collateral. Our results are as follows. First, in one region a large loan-to-value (LTV) ratio can amplify the positive effect of the union-wide APP on domestic households' borrowing. Second, during the APP implementation, overly optimistic (i.e., non-fundamental) expectations about local real estate prices would further augment households' borrowing in that region. Third, region-specific macroprudential measures that stabilize private debt can counteract the effects of the optimistic expectations and favor a macroeconomic expansion driven only by fundamentals, i.e., the APP, without the need to scale back the latter. Fourth, both the APP and the region-specific macroprudential policy bring about a welfare improvement.

JEL Classification Numbers: E43; E44; E52; E58.

Keywords: monetary union, open-economy macroeconomics, non-standard monetary policy, zero lower bound, macroprudential policy.

---

*Banca d'Italia. We thank for useful comments Michael Kühl, Stefano Neri, Margarita Rubio, Stefano Siviero, Raf Wouters, and participants at the European System of Central Banks Monetary Policy Committee Seminar (June 2016), the Bank of Italy Workshop "Unconventional monetary policy: effectiveness and risks" (October 2016), the 2016 Central Bank Macroeconomic Modeling Workshop (September 2016), the 2016 Dynare Conference (September 2016), and the seminar at the Banco de España (June 2017). All errors are ours. The opinions expressed in this paper do not necessarily reflect those of the Bank of Italy or the Eurosystem. Corresponding author: Massimiliano Pisani. Directorate General for Economics, Statistics and Research, Via Nazionale 91, 00184 Rome, Italy. Phone: +39 06 4792 3452, E-Mail: massimiliano.pisani@bancaditalia.it.