Macropu and Monetary Policy

Optimal Policy

Optimal combination of the parameters in the LTV rules, which minimizes a welfare-based loss function:

<table>
<thead>
<tr>
<th></th>
<th>High interest rate</th>
<th>Low interest rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>phi_b</td>
<td>0.43</td>
<td>0.76</td>
</tr>
<tr>
<td>phi_y</td>
<td>0.24</td>
<td>0.35</td>
</tr>
</tbody>
</table>

- In the low interest-rate situation, the optimized rule responds strongly both to credit and to output
- Macroprudential policy helps monetary policy to improve social welfare containing macroeconomic volatility and economic inequality

Conclusions

- This paper investigates stabilization policies in a low interest-rate environment
- We use a DSGE model with financial frictions, in which interest rates are permanently low and monetary policy is constrained by the ZLB
- Macroprudential policies, represented by an LTV rule
- We find that, if macroprudential policy is available, it can serve as an alternative stabilizing mechanism to monetary policy
- Optimal coordination between monetary and macroprudential policies is welfare enhancing, especially in the low interest-rate environment