Discussion of
"Monetary policy consequences of financial stability interventions: assessing the UK LDI crisis and the central bank policy response" by N. Bandera and J. Stevens

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Paper in a nutshell

LDI crisis and CB response

Pension fund inability to recapitalize LDIs quickly. The importance of swift and short-term response

NK DSGE model setup

Allows to model LDI, pension fund, bank reaction functions

Financial stability intervention trade-offs

Calibration of different tools to offset the crisis while limiting the impact on Monetary policy goals

Figure 6: Financial Stability Intervention: Asset Purchases worth 0.9% of GDP

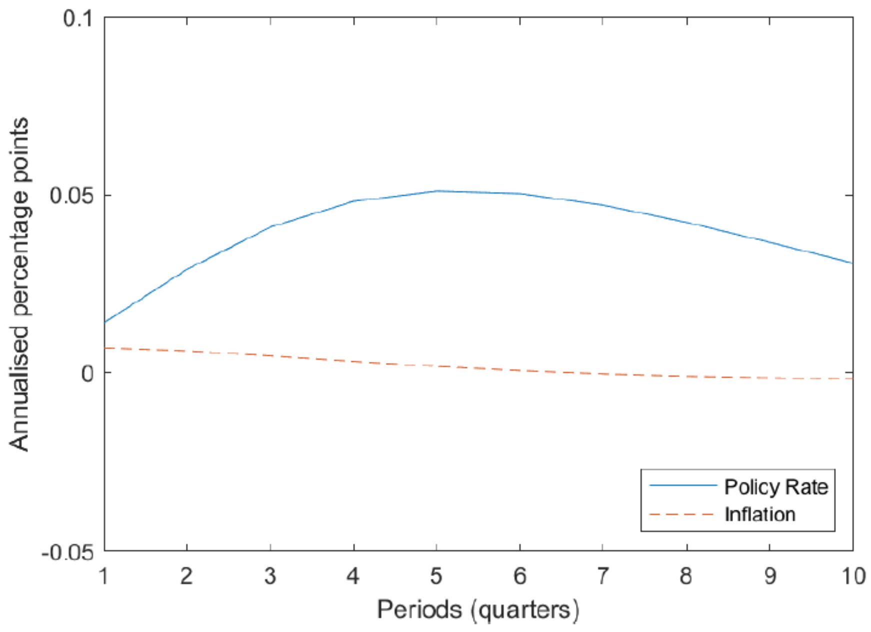

Figure 6 shows the impact of asset purchases worth 0.9% of GDP on the policy rate (blue line) and inflation (red dashed line). These are the monetary policy spillovers of the financial stability asset purchases.

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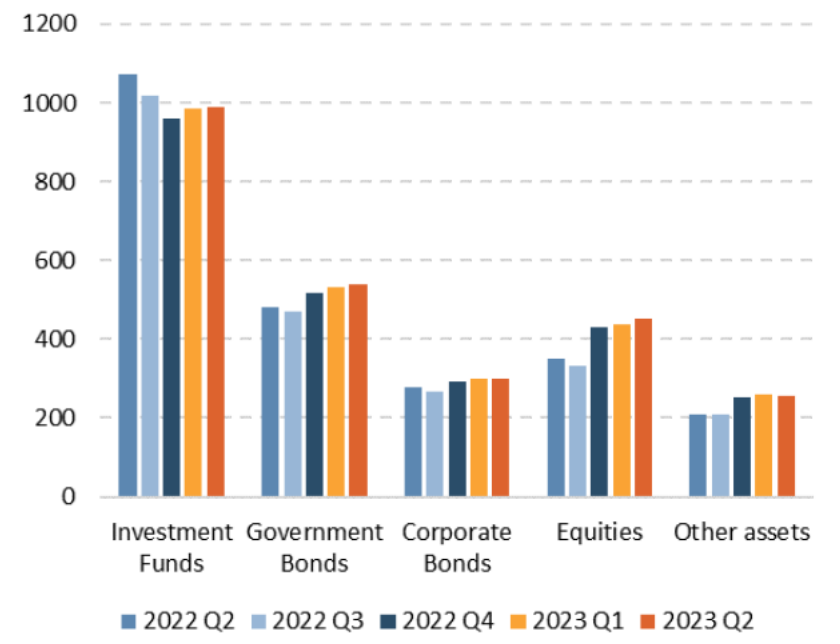
Some context

Figure A.2.15: Assets by category (EUR bn).



https://www.eiopa.europa.eu/publications/financial-stability-report-december-2023_en

https://www.ecb.europa.eu/press/fie/html/ecb.fie202406~c4ca413e65.en.html#toc18

Unexpected triggers in sov-bond yields due to fiscal policies

Pension funds hold large share of domestic gov-bonds

22% of EEA IORP assets are gov-bonds. Of those: 17% are domestic (EIOPA, FSR dec2023)

Pension funds important players in NBFI sector

~7% of total NBFI sector (ECB, Financial integration and structure in the euro area, 2024)

Tool efficiency

Macroprudential = liquidity buffer

2.75% of LDI assets

Profitability issues & de-stigmatized

Repo with pension funds as equity injections

0.23% of GDP

Asset purchases (short term)

0.9% of GDP

Figure 10: Financial Stability Intervention: Active Macroprudential Policy

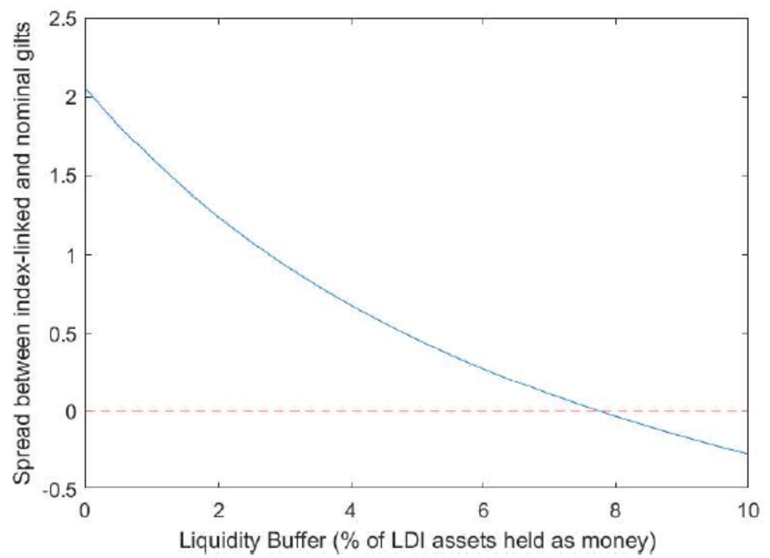


Figure 10 shows the period one spread between (nominal) yields on index-linked and nominal gilts. A spread of zero implies that both types of gilt offer the same expected return, as is the case in the baseline scenario with LDIs or pension funds. A spread of 2.16% corresponds to the no-intervention scenario displayed in figure 4. The x-axis shows a range of possible steady-state liquidity buffers, which are then relaxed during period 1.

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What could be added?

Margin calls due to yield curve changes

Defined benefit -> defined contribution plans

Aging society (Δ liquidated_funds > Δ new_funds_created)

Pension fund relations with commercial banks

Liquidity providers, diversification of bank relations

Thank you!