Newsletter no. 34, April 2017

Research Newsletter

DeNederlandscheBank
EUROSYSTEEM

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Inaugural lecture

On March 10 dr. Dirk Broeders was installed as Professor of Pension Finance and Regulation at Maastricht University, School of Business and Economics. In his inaugural lecture he challenges economic fallacies frequently heard in the world of pensions. Including the detrimental effects of discounting safe pension benefits at the expected return on risky assets. In the lecture he also stresses the importance of clear ownership rights of pension benefits to prevent rent-seeking behavior. Furthermore, he points out the increasing systemic risk of the occupational pension sector in the Netherlands, as correlations between pension funds are pushed towards increasingly high levels. The figure shows from top ››

Publication in *Journal of Management*

Who's the boss at the top?

A micro-level analysis of director expertise, status and conformity within boards

Authors Dennis Veltrop, Eric Molleman, Reggy Hooghiemstra and Hans van Ees.

In this paper we address how director expertise impacts a director's social status and conformity within the board. Our results, derived from two unique multi-source datasets of peer ratings on director status and conformity of non-executive directors from Dutch organizations, indicate that industry-specific expertise and financial expertise differently impact directors' social status and influence within the board. We find that directors' individual performance orientation – the motivation to demonstrate expertise – acts as an important contingency for expertise to increase directors' status within the board. Additional analyses using archival data and interviews with non-executive directors substantiate our findings and provide additional insight into the dynamics operating within boards. This study extends existing research on boards of directors and provides unique micro-level insights into the boardroom dynamics that connect director expertise to director status and conformity within boards.

Publication in *Economic Policy*

Transitory or permanent changes in monetary policy?

Authors Alan Blinder, Michael Ehrmann, Jakob de Haan, and David-Jan Jansen.

A key question today is to what extent changes in monetary policy introduced during the financial crisis will prove to be temporary or whether we are seeing permanent changes in the practice of monetary policy. In Blinder et al. (2017), we aim to shed light on this question, discussing four themes: the mandate for monetary policy, the instruments, the role of communications and the place of the central bank within government. We discuss insights from academic research on these themes and present the results of two surveys we held among 55 central bank governors and 159 academics between February and May 2016.

The financial crisis has transformed monetary policy in various countries, which is most clearly evidenced by the range of unconventional instruments deployed, such as asset purchase programs, forward ››

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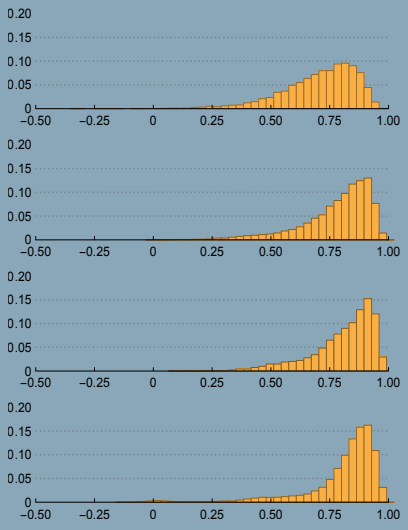

to bottom the probability distribution of the correlation between the changes in the funding ratio of any combination of two pension funds. These probability distributions are based on a balanced panel of 171 pension funds. The top graph shows the probability distribution based on the years 2009 and 2010. The lower graph is based on monthly changes in the funding ratio in 2015 and 2016. Not only is the average correlation high, it also increases over time.

■ LINK INAUGURAL LECTURE (IN DUTCH)

Netspar grant

Hazel Bateman (UNSW and CEPAR) and Federica Teppa (EBO_Onderzoek) have been awarded a Netspar Comparative Research Grant (20,000 euros) for their proposal '*Regulation of information provision for pension choices: Australia and the Netherlands compared.*'

Around the world there has been a shift in retirement saving/benefit arrangements from public to private ››

guidance and negative interest rates. The severity of the crisis and the resulting urgency to act did not leave much time to weigh the pros and cons of different options. Necessity was often the mother of invention. We conclude that many of these changes are here to stay. We expect that future monetary policy will more often be based on a broader central bank mandate. Furthermore, the central bank's toolbox will contain a broader range of instruments, in which communications play a key role, than before the crisis. Increasing erosion of central bank independence cannot be ruled out.

Theme 1:
Broader mandates, also in non-crisis countries

Broader central bank mandates appear to be gaining support. A majority of the respondents indicated that the crisis had caused them to reconsider the central bank mandate, central bankers (62%) even more so than academics (54%). Especially central bankers whose countries were affected by the crisis have reconsidered the mandate. But the thinking has changed more broadly-for instance, central banks in non-crisis countries are also likely to have reconsidered their mandate. The underlying tendency reveals that the respondents particularly favor widening the mandate to include financial stability, a preference expressed, remarkably, to the same extent among countries not directly hit by the crisis. This represents a fundamental shift from the pre-crisis consensus that central banks should primarily aim for price stability.

Theme 2:
Broader range of instruments

In quite a few countries, the crisis seems not to have affected the basic approach to monetary policy in a drastic way. This is most apparent from noting that 70% of central bank governors did not consider using interest rates near zero, negative rates, or QE in any form. In that sense, the world of central banking has not changed nearly as much as concentrating on the Fed, the ECB, the Bank of England, and the Bank of Japan, or, for that matter, on the academic literature, might indicate. Opinions on the future use of these unconventional monetary policy instruments differ. For example, consensus on the future use of QE is still far off. Some 21% of central bankers believe purchasing government bonds should not be a routine instrument in the future, whereas nearly 40% think it is too early to make a call. Academics are more positive, with 68% believing purchasing government paper should remain an option.

Similarly, opinions on the use of negative interest rates differ. Only 22% of central bank governors wish to keep this option, whereas more than half think it is too early to say. Again, academics are more unanimous: 53% would leave the option open of using negative interest rates in the new normal. The only common ground between central bankers and academics is the use of macro-prudential instruments. In line with wider mandates, three quarters of respondents – both central bankers and academics – are of the opinion that these instruments must continue to be available. Lastly, a notable aspect is that central bank governors who deployed an instrument before are keener to keep it for future use should the need arise. The likelihood of a positive assessment of QE (using government paper) is 25 percentage points higher if a central bank governor has used the instruments.

Theme 3:
Even more communications about monetary policy

It was evident before the crisis erupted that communications play a key role in monetary policy (Blinder et al., 2008). Our surveys show that the importance of communications increased further during the crisis. Over 80% of the central bank governors stated they intensified communications during the crisis. Roughly half indicate they plan to keep using communications, and 20% state they will even step up communications.

Probably the best-known example of communications during the crisis ››

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provision, and from traditional defined benefits to arrangements where individual pension fund members are required or encouraged to take the responsibility for decisions about the accumulation and decumulation of their retirement savings. Australia was an early mover with the introduction in 1992 of compulsory employer contributions into individual accounts in private pension funds (called superannuation funds) under what is known as the superannuation guarantee. Individuals can choose their pension fund, the asset allocation of their retirement savings, whether to make additional member contributions (on top of the minimum 9.5% employer contribution) and how to take their benefits. Those who don't choose their pension fund are placed in a regulated default fund.

The option to choose one's own pension fund is not yet available in the Netherlands, but has been proposed by several Dutch political parties. As well, there are moves to allow Dutch pension plan members greater choice of their retirement benefits and payment patterns. In this context, the overall aim of this research project is to identify lessons for the Netherlands from the international literature and the Australian experience with regulations on pension fund information disclosure designed to assist members with choices of pension funds, asset allocation and pension benefits. The proposed research will also provide the background for possible future projects testing alternative presentation formats (using lab, survey and field experiments) in the Netherlands.

■ LINK

is the 'whatever it takes' speech of Mario Draghi in July 2012, but communications increased on a much larger scale. For example, the Federal Reserve and the Bank of Japan both announced formal inflation targets in early 2012. Also, the Fed started hosting press conferences following interest rate decisions, the Bank of England decided to disclose the minutes of monetary policy meetings sooner and the ECB began to publish its monetary policy accounts in early 2015.

Probably the most complex form of communications, forward guidance became more prominent after the initial lower limit of nominal policy rates had been hit, helping to steer rates by managing expectations. Roughly half of the central banks in our sample say they used some form of forward guidance during the crisis. Those who used it are 43 percentage points more likely to assess this instrument positively. A clear consensus is still lacking, however, on the exact form that forward guidance should ideallytake. The biggest group of central bankers (39%) prefers qualitative forward guidance, but around a quarter tends to make it dependent upon incoming economic data (data-based or state-contingent forward guidance). Again, the academics are much more in agreement, with nearly 70% opting for data-based guidance.

Theme 4: Changing central bank independence?
During the crisis, central banks in many countries faced increasing criticism. Nevertheless, our respondents indicate that central bank independence has remained unchanged thus far. However, academics in particular are concerned about independence going forward. Almost 40% feel independence is jeopardized either 'to some extent' or 'to a great extent'.

Central bankers are less worried about their independence, with over 70% indicating that their institution's independence over the next few years is a subject of no or minor concern. As our samples were not fully comparable, with most academics being from the United States, the United Kingdom and the euro area, we also made a comparison with central bank governors from advanced economies. This group of central bank governors, which makes for better comparison with academics, also state independence is not a primary concern.

References

Blinder, A., M. Ehrmann, J. de Haan and D. Jansen (2017). Necessity as the mother of invention: Monetary policy after the crisis. forthcoming in the October 2017 issue (number 91) of *Economic Policy*.

Blinder, A.S., M. Ehrmann, M. Fratzscher, J. de Haan and D. Jansen (2008). Central bank communication and monetary policy: A survey of theory and evidence. *Journal of Economic Literature*, 46, 910-45.

Conferences

DNB/Riksbank Macroprudential Conference, to be held in Amsterdam, the Netherlands, on June 20-21, 2017.

This is the third meeting in a conference series, which aims to be the leading venue for frontier thinking on macroprudential policies, with participation by leading academics, policy makers and representatives from the financial sector. The scientific committee in charge consist of:
- Viral Acharya, Professor of Finance, New York University
- Darrell Duffie, Professor of Finance, Stanford University
- Anil Kashyap, Professor of Economics and Finance, University of Chicago
- Nobuhiro Kiyotaki, Professor of Economics, Princeton University
- Rafael Repullo, Professor of

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Economics, Centro de Estudios Monetarios y Financieros
- Hélène Rey, Full Professor of Economics, London Business School

Confirmed paper presentations for 2017 include newly commissioned work by Gary Gorton, Elena Carletti, Ralph Koijen, Jean-Edouard Colliard, Jose Luis Peydro and Luigi Zingales. Discussants will be drawn from both policy makers and academics. The keynote speaker will be Stanley Fischer. The conference is by invitation only.

Research Conference 20-21 April 2017: Avoiding and Resolving Banking Crises

Joint conference by De Nederlandsche Bank, European Banking Center (Tilburg University) and CEPR. Location: De Nederlandsche Bank, Amsterdam, The Netherlands. Please use the following link for the programme. Link to programme

20th Annual Research Conference De Nederlandsche Bank Amsterdam, 9-10 October 2017 Fiscal and monetary policy in a changing economic and political environment

Keynote speakers:
- John Cochrane, Stanford University
- Gauti Eggertsson, Brown University
- Chris Sims, Princeton University

In recent years many central banks have forcefully attempted to bring inflation up to their target levels. Their policies led to important changes in both the size and the composition of central bank balances sheets. The implications of these changes are not yet well understood. Further, innovations in fiscal policies are being undertaken whose future consequences are still unclear. Finally, the changing economic and political environment could affect the conduct of monetary and fiscal policy and their interaction.

The conference aims at understanding several questions such as:
- How does the interaction between monetary and fiscal policy affect the efficiency and stability of financial markets, both in terms of risk pricing and the composition of portfolios of households and institutional investors, which in turn could have implications for aggregate investment dynamics?
- What kind of monetary and fiscal policy mix can bring inflation to target and support long run growth?
- Why has it been so difficult for monetary policy to bring inflation up to target levels? Can deficit-financed fiscal policy support monetary policy in these conditions?
- What is the optimal policy mix to support required structural reforms, especially in Europe? Does unconventional monetary policy support structural reforms?
- Are large central bank balance sheets benign, or not? Is central bank independence under threat in the current environment? Is central bank independence still desirable? How is democratic accountability ensured?

Conference submissions can be send to DNB_ResearchConference@dnb.nl. We prefer full papers, but extended abstract may be considered as well. The paper submission deadline is 31 May 2017. We expect to send out acceptance decisions around late June.

Program Committee:
Dennis Bonam, Dirk Broeders, Andrea Colciago, Jakob de Haan, Sebastiaan Pool and Robert Vermeulen

DNB working-papers

Since December 2016 the following Working Papers have been published. Please use the following link: DNB working paper 551-512

- **No 551** - Asymmetric consumption effects of transitory income shocks. Dimitris Christelis, Dimitris Georgarakos, Tullio Jappelli, Luigi Pistaferri and Maarten van Rooij - 24 March 2017
- **No 550** - To stay or go? Consumer bank switching behaviour after government interventions. Maaike Diepstraten and Carin van der Cruijsen - 16 March 2017
- **No 549** - News consumption, political preferences and accurate views on inflation. David-Jan Jansen and Matthias Neuenkirch - 15 March 2017
- **No 548** - Quantitative easing and exuberance in government bond markets: Evidence from the ECB's expanded asset purchase program. Ryan van Lamoen, Simona Mattheussens and Martijn Dröes - 15 March 2017
- **No 547** - X-efficiency and economies of scale in pension fund administration and investment. Gosse Alserda, Jaap Bikker and Fieke van der Lecq - 23 February 2017
- **No 546** - Survey shortcuts? Evidence from a payment diary survey. Lola Hernandez, Robbert-Jan 't Hoen and Juanita Raat – 23 February 2017
- **No 545** - Follow the money: Does the financial sector intermediate natural resource windfalls? Thorsten Beck and Steven Poelhekke – 23 February 2017
- **No 544** - Fundamental uncertainty and unconventional monetary policy: an info-gap approach. Yakov Ben-Haim, Maria Demertzis and Jan Willem Van den End – 23 February 2017
- **No 542** - Public capital in the 21st century: As productive as ever? Jasper de Jong, Marien Ferdinandusse and Josip Funda – 18 January 2017
- **No 541** - Hazardous tango: Sovereign-bank interdependencies across countries and time. Jack Bekooij, Jon Frost, Remco van der Molen and Krzysztof Muzalewski – 28 December 2016
- **No 540** - Euro area imbalances. Mark Mink, Jan Jacobs and Jakob de Haan – 28 December 2016 ››

- **No 539** - The politics of central bank independence. Jakob de Haan and Sylvester Eijffinger – 22 December 2016

- **No 538** - Will helicopter money be spent? New evidence Maarten van Rooij en Jakob de Haan – 15 December 2016

- **No 537** - Trust in the central bank and inflation expectations. Dimitris Christelis, Dimitris Georgarakos, Tullio Jappelli and Maarten van Rooij – 14 December 2016

- **No 536** - Sectoral allocation and macroeconomic imbalances in EMU. Niels Gilbert en Sebastiaan Pool – 12 December 2016

- **No 535** - Pension profile preferences: the influence of trust and expected expenses. Carin van der Cruijsen and Nicole Jonker – 28 November 2016

- **No 534** - Aggregate liquidity and banking sector fragility. Mark Mink – 24 November 2016

- **No 533** - Mining matters: Natural resource extraction and local business constraints. Ralph de Haas en Steven Poelhekke – 15 November 2016

- **No 532** - Payment behaviour: the role of socio-psychological factors. Carin van der Cruijsen and Frank van der Horst – 7 November 2016

- **No 531** - International investment positions revisited: Investor heterogeneity and individual security characteristics. Martijn Boermans and Robert Vermeulen – 7 November 2016

- **No 530** - Finance and income inequality: A review and new evidence. Jakob de Haan and Jan-Egbert Sturm – 7 November 2016

- **No 529** - Does the Fed's unconventional monetary policy weaken the link between the financial and the real sector? Yimin Xu and Jakob de Haan – 4 November 2016

- **No 528** - The formation of a core-periphery structure in heterogeneous financial networks. Marco van der Leij, Daan in 't Veld and Cars Hommes – 4 November 2016

- **No 527** - Financial globalization and foreign direct investment. Steven Poelhekke – 4 November 2016

- **No 526** - Bank profitability and risk taking in a prolonged environment of low interest rates: a study of interest rate risk in the banking book of Dutch banks. Raymond Chaudron – 4 November 2016

- **No 525** - Necessity as the mother of invention monetary policy after the crisis Alan Blinder, Michael Ehrmann, Jakob de Haan and David-Jan Jansen – 26 October 2016

- **No 524** - Generalized stability of monetary unions under regime switching in monetary and fiscal policies. Dennis Bonam and Bart Hobijn – 25 October 2016

- **No 523** - Connecting the dots: market reactions to forecasts of policy rates and forward guidance provided by the Fed. Michelle Bongard, Gabriele Galati, Richhild Moessner and William Nelson – 24 October 2016

- **No 521** - On the value of virtual currencies. Wilko Bolt and Maarten van Oordt – 23 September 2016

- **No 520** - International Banking and Cross-Border Effects of Regulation: Lessons from the Netherlands. Jon Frost, Jakob de Haan and Neeltje van Horen – 15 September 2016

- **No 519** - Fuel tourism in Dutch border regions: are only salient price differentials relevant? David-Jan Jansen and Nicole Jonker – 25 August 2016

- **No 518** - Credit Defaults, Bank Lending and the Real Economy. Sebastiaan Pool – 25 August 2016

- **No 517** - Contingent convertible bonds with floating coupon payments: fixing the equilibrium problem. Daniël Vullings – 5 August 2016

- **No 516** - The signalling content of asset prices for inflation: Implications for Quantitative Easing. Leo de Haan and Jan Willem van den End – 28 July 2016

- **No 515** - How competitiveness shocks affect macroeconomic performance across euro area countries. Karsten Staehr and Robert Vermeulen – 27 July 2016

- **No 514** - Macroeconomic effects of mortgage interest deduction. Cenkhan Sahin – 7 July 2016

- **No 513** - Timing of banks' loan loss provisioning during the crisis. Leo de Haan and Maarten van Oordt – 2 June 2016

- **No 512** - Communicating dissent on monetary policy: Evidence from central bank minutes. David-Jan Jansen and Richhild Moessner – 17 May 2016

DNB Occasional Studies

Since December 2016 the beginning of 2016 the following occasional studies have been published, please use the following link: Occasional Studies

Nr. 5 (2016): The Return on Equity of Large Dutch Banks December 2016. Tijmen Daniëls and Shahin Kamalodin

Nr. 4 (2016): Perspectief op groei: De Nederlandse economie in beweging October 2016. Jante Parlevliet, Maurice Doll, Robert Vermeulen, Jasper de Winter

Nr 3 (2016): Inflation in the euro area and why it matters September 2016. Jakob de Haan, Marco Hoeberichts, Renske Maas and Federica Teppa

Nr 2 (2016): Time for Transition - an exploratory study of the transition to a carbon-neutral

economy March 2016. Diederik Dicou, Saskia van Ewijk, Jan Kakes, Martijn Regelink en Guido Schotten

Nr 1 (2016): A shock to the system? Market illiquidity and concentrated holdings in European bond markets February 2016. Sophie Steins Bisschop, Martijn Boermans and Jon Frost

Published articles

Since December 2016 the following papers have been published: Published articles

- **Cash versus debit card: the role of budget control**, Lola Hernandez, Nicole Jonker en Anneke Kosse, *Journal of Consumer Affairs, 2017, 51(1), 91-112*
- **In love with the debit card but still married to cash**, Carin van der Cruijsen, Lola Hernandez and Nicole Jonker, *Applied Economics, 2017, 49(30), 2989-3004*
- **Competition and scale economy effects of the Dutch 2006 health care insurance reform**, Jacob Bikker, *Geneva Papers on Risk and Insurance - Issues and Practice, 2017, 42, 53–78*
- **Insurance companies' trading behaviour during the European sovereign debt crisis: Flight home or flight to quality?**, Melle Bijlsma and Robert Vermeulen, *Journal of Financial Stability, 2016, 27, 137–154*
- **Granularity, a blessing in disguise: transaction cycles within real-time gross settlement systems**, Tim van Ark and Ronald Heijmans, *Journal of Financial Market Infrastructures, 2016, 5(2), 29-52*
- **Housing and mortgage dynamics in The Netherlands: Some evidence from household survey data**, David-Jan Jansen, in: Biswajit Banerjee and Fabrizio Coricelli (eds.), *Crisis, Credit and Resource Misallocation: Evidence from Europe during the Great Recession, 2017, CEPR Press*

Forthcoming articles

Since December 2016 the following papers have been accepted for publication:Forthcoming Articles

- **Banking products: You can take them with you, so why don't you?**, Carin van der Cruijsen and Maaike Diepstraten, *Journal of Financial Services Research*
- **Contingent convertible bonds: Who invests in European CoCos?**, Martijn Boermans and Sweder van Wijnbergen, *Applied Economics Letters*
- **Who's the boss at the top? A micro-level analysis of director expertise, status and conformity within boards**, Dennis Veltrop, Eric Molleman, Reggy Hooghiemstra, Hans van Ees, *Journal of Management Studies*
- **From mine to coast: transport infrastructure and the direction of trade in developing countries**, Roberto Bonfatti and Steven Poelhekke, *Journal of Development Economics*
- **What drives public acceptance of reforms? Longitudinal evidence from a Dutch pension reform**, Jante Parlevliet, *Public Choice*
- **Financial stability in networks of financial institutions and market infrastructures**, Ron Berndsen, Carlos León and Luc Renneboog, *Journal of Financial Stability*
- **Lenders on the storm of wholesale funding shocks: Saved by the central bank?**, Leo de Haan, Jan Willem van den End and Philip Vermeulen, *Applied Economics*
- **Measuring expectations of inflation: Effects of survey mode, wording, and opportunities to revise**, Wändi Bruine de Bruin, Wilbert van der Klaauw, Maarten van Rooij, Federica Teppa and Klaas de Vos, *Journal of Economic Psychology*
- **When arm's length is too far: Relationship banking over the credit cycle**, Thorsten Beck, Hans Degryse, Ralph De Haas and Neeltje van Horen, *Journal of Financial Economics*

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