**October 2023**

DNB Research Newsletter

## Research highlights

### 1. The effects of fiscal policy when planning horizons are finite

In a paper recently accepted for publication in the Journal of Money, Credit and Banking, Joep Lustenhouwer and Kostas Mavromatis study the effects of fiscal policy in a New Keynesian model for a closed economy where agents are boundedly rational. They argue that the effects of fiscal policy can change substantially compared to the fully rational case. Read more.

### 2. Deposit market concentration and monetary transmission: evidence from the euro area

In a recent DNB working paper, Stephen Kho examines whether banking sector concentration affects how banks transmit monetary policy to deposit rates, using EA country-level data and high-frequency identification. He finds that banks in more concentrated sectors more slowly hike and more quickly cut deposit rates, potentially delaying the transmission to deposit rates by half a year. Read more.

### 3. The long-run Phillips curve is … a curve

Is there a relation between inflation and output in the long run? The answer is no, according to undergraduate macroeconomic textbooks. A recent DNB working paper by Guido Ascari, Paolo Bonomolo and Qazi Haque questions this view showing that, in US data, inflation and output are negatively correlated in the long run: persistently high inflation is associated with sizeable output losses. Read more.

### 4. Safe asset scarcity and re-use in the European repo market

Justus Inhoffen and Iman van Lelyveld show in a recent DNB working paper that banks materially increase the rate of re-use in response to tightened asset scarcity induced by the Eurosystem's asset purchase program and accommodate clients' demand for safe assets rather than liquidity and profit

from the repo rate spread. Dealers' re-use of collateral to source liquidity exposes them to collateral runs. Read more.

### 5. PhD Defense – interview with Tom Hudepohl

Interview with Tom Hudepohl, until recently economist at the financial markets division of DNB, now seconded to the ECB. On 13 July, Tom defended his PhD thesis titled 'The (side-)effects of unconventional monetary policy in the euro area' at the University of Groningen. Read more.

### 6. PhD Defense – interview with Annick van Ool

Annick van Ool defended her PhD dissertation 'Economic Principles in Pension Design' at Maastricht University on September 20. Annick is currently employed as a policy advisor at the financial stability division of DNB. Read more.

## Publications (since June 2023)

### Working Papers

790 - Deposit market concentration and monetary transmission: evidence from the euro area
Stephen Kho

789 - The Long-Run Phillips Curve is ... a Curve
Guido Ascari, Paolo Bonomolo, Qazi Haque

788 - The pricing of climate transition risk in Europe's equity market
Philippe Loyson, Rianne Luijendijk, Sweder van Wijnbergen

787 - Safe Asset Scarcity and Re-use in the European Repo Market
Justus Inhoffen, Iman van Lelyveld

786 - Carbon home bias of European investors
Martijn Boermans, Rients Galema

785 - Empirical evidence on the Euler equation for investment in the US
Guido Ascari, Qazi Haque, Leandro Magnusson, Sophocles Mavroeidis

784 - Coherence without Rationality at the ZLB
Guido Ascari, Sophocles Mavroeidis, Nigel McClung

783 - Trust in the financial performance of pension funds, public perception and its effect on participation in voluntary pension saving plans
Floor Goedkoop, Madi Mangan, Mauro Mastrogiacomo, Stefan Hochguertel

782 - Global models for a global pandemic: the impact of COVID-19 on small euro area economies
Pablo Garcia, Pascal Jacquinot, Črt Lenarčič, Matija Lozej, Kostas Mavromatis

781 - Uncovering the digital payment divide: understanding the importance of cash for groups at risk
Carin van der Cruijsen, Jelmer Reijerink

## Published journal articles

Staggered wages, unanticipated shocks and firms' adjustments
Francesco Caloia, Jante Parlevliet and Mauro Mastrogiacomo
Journal of Macroeconomics, 2023, 76, 103521.

Global models for a global pandemic: the impact of Covid-19 on small euro area economies
Pablo Garcia, Pascal Jacquinot, Crt Lenarcic and Matija Lozej and Kostas Mavromatis
Journal of Macroeconomics, 2023, 77, 103551

Intergenerational sharing of unhedgeable inflation risk
Roel Beetsma, Damiaan Chen and Sweder van Wijnbergen
Insurance: Mathematics and Economics, 2023, 113, 140-160

Consumer willingness to share payments data: trust for sale?
Michiel Bijlsma, Carin van der Cruijsen and Nicole Jonker
Journal of Financial Services Research, 2023, 64, 41-80.

Fickle emerging market flows, stable euros, and the dollar risk factor
Martijn Boermans and John Burger
Journal of International Economics, 2023, 142, 103730.

Preferred habitat investors in the green bond market
Martijn Boermans
Journal of Cleaner Production, 2023, 421 (1), 138365

Trust in financial institutions: a survey
Carin van der Cruijsen, Jakob de Haan and Ria Roerink
Journal of Economic Surveys, 2023, 37(4), 1214-1254

Herd behaviour of pension funds by asset class
Ian Koetsier and Jacob Bikker
International Journal of Economics and Finance, 2023, 15(2).

Business dynamism, sectoral reallocation and productivity in a pandemic
Guido Ascari, Andrea Colciago and Riccardo Silvestrini
European Economic Review, 2023, 156, 104473

Staggered wages, unanticipated shocks and firms' adjustments
Francesco Caloia, Jante Parlevliet and Mauro Mastrogiacomo
Journal of Macroeconomics, 2023, 76, 103521

Intensified competition and the impact on credit ratings in the RMBS market
Vivian van Breemen, Frank Fabozzi and Dennis Vink
Financial Markets, Institutions & Instruments, 2023, 32(2), 51-86

Fiscal foresight and the effects of government spending; it's all in the monetary-fiscal mix
Guido Ascari, Peder Beck-Friis, Anna Florio and Alessandro Gobbi
Journal of Monetary Economics, 2023, 134, 1-15

Monetary policy effects in times of negative interest rates: what do bank stock prices tell us?
Joost Bats, Massimo Giuliodori and Aerdt Houben
Journal of Financial Intermediation, 2023, 53, 101003

Risk assessment of banknotes as a fomite of SARS-CoV-2 in cash payment transactions
Jack Schijven, Mark Wind, Daniel Todt, John Howes, Barbora Tamele and Eike Steinmann
Risk Analysis, 2023, 43(4), 700-708

How quantitative easing changes the nature of sovereign risk
Dirk Broeders, Leo de Haan and Jan Willem van den End
Journal of International Money and Finance, 2023, 137, 102881

Price level targeting under fiscal dominance
Guido Ascari, Anna Florio and Alessandro Gobbi
Journal of International Money and Finance, 2023, 137, 102876

How does consumption respond to news about inflation? Field evidence from a randomized control trial
Olivier Coibion, Dimitris Georgarakos, Yuriy Gorodnichenko and Maarten van Rooij
American Economic Journal: Macroeconomics, 2023, 15(3), 109-152.

Credit policy and the 'debt shift' in advanced economies
Dirk Bezemer, Josh Ryan-Collins, Frank van Lerven and Lu Zhang
Socio-Economic Review, 2023, 21(1), 437–478

## Forthcoming journal articles

No country is an island. International cooperation and climate change
Massimo Ferrari Minesso and Maria Sole Pagliari
Journal of International Economics

The effects of fiscal policy when planning horizons are finite
Kostas Mavromatis and Joep Lustenhouwer
Journal of Money, Credit and Banking

Mortgage prepayments and tax-exempted intergenerational transfers: from rich parents to rich children?

Yue Li and Mauro Mastrogiacomo
Review of Income and Wealth

The displacement effect of compulsory pension savings on private savings. Evidence from the Netherlands, using pension funds supervisory data
Mauro Mastrogiacomo, Rik Dillingh and Yue Li
Journal of the Economics of Ageing

The effect of the Dutch financial assessment framework on the mortgage investments of pension funds
Mauro Mastrogiacomo and Yeorim Kim
Journal of Pension Economics and Finance

Empirical evidence on the Euler equation for investment in the US
Guido Ascari, Qazi Haque, Leandro M. Magnusson and Sophocles Mavroeidis
Journal of Applied Econometrics

Market forces in healthcare insurance: the impact of healthcare reform on regulated competition revisited
Jacob Bikker and Jack Bekooij
International Journal of Finance and Economics

**Other publications**

Know your (holding) limits: CBDC, financial stability and central bank reliance
ECB Occasional Paper 326
Barbara Meller, Oscar Soons

Some implications of micro price-setting evidence for inflation dynamics and monetary transmission
ECB Occasional Paper 321
Luca Dedola, Erwan Gautier, Anton Nakov, Sergio Santoro, Lukas Henkel, Bruna Fagandini, Emmanuel De Veirman

Price adjustment in the euro area in the low-inflation period: evidence from consumer and producer micro price data
ECB Occasional Paper 319
Erwan Gautier, Peter Karadi, Juergen Amann, Cristina Conflitti, Riemer Faber, Brian Fabo, Ludmila Fadejeva, Catherine Fuss, Theodora Kosma, Valentin Jouvanceau, Fernando Martins, Jan-Oliver Menz, Teresa Messner, Pavlos Petroulas, Pau Roldan-Blanco, Fabio Rumler, Javier Sánchez Bachiller, Sergio Santoro, Domingos Seward, Irina Stanga, Emmanuel De Veirman, Elisabeth Wieland, Ladislav Wintr, Jesse Wursten, Hélène Zimmer

Mismatch woningmarkt voor 1,8 miljoen huishoudens
Economisch Statistische Berichten, forthcoming
Dorinth van Dijk, Maarten van Rooij

Cash plays a key role for various groups at risk
SUERF Policy Brief 676
Carin van der Cruijsen, Jelmer Reijerink

More uncertainty, but no financial compensation: wage differentials between permanent and flexible jobs in the Netherlands

SUERF Policy Brief 674
Cindy Biesenbeek, Maikel Volkerink

Exploring the informational role of inflated credit ratings
SUERF Policy Brief 641
Anna Bayona, Oana Peia, Razvan Vlahu

Climate change risks and the energy and emission allowances market – An analysis based on EMIR data
SUERF policy brief 610
Merel Vrolijk, Ellen van der Woerd, Elisabeth de Vogel

For a complete list of publications see our website.

## Events

### Research seminars

**Past**

**19 Sept 2023:** Responsible Investing under Ambiguity Induced by Climate Uncertainty

Massimo Guidolin (Bocconi University)

**26 Sept 2023:** Fund fragility: The role of investor base

Marie Hoerova (ECB)

**3 Oct 2023:** Buy-to-Live vs. Buy-to-Let: The Impact of Real Estate Investors on Housing Costs and Neighborhoods

Lianne Hans (Kadaster)

**Forthcoming**

**10 Oct 2023:** Monetary Policy in the Age of Social Media: A Twitter-Based Inflation Analysis

Benjamin Born (Frankfurt School of Finance & Management)

**17 Oct 2023:** TBA

Cars Hommes (Bank of Canada, University of Amsterdam)

**24 Oct 2023:** TBA

Margherita Bottero (Bank of Italy)

**31 Oct 2023:** TBA

Boris Hofmann (University of St. Gallen)

**7 Nov 2023:** TBA

Martin Wolf (BIS)

**21 Nov 2023:** TBA

Petr Sedlacek (University of New South Wales)

**28 Nov 2023:** TBA

Ralph Luetticke (University of Tubingen)

**5 Dec 2023:** TBA

Christian Matthes (Indiana University)

**12 Dec 2023:** TBA

Cristina Manea (BIS)

**19 Dec 2023:** TBA

Kristy Jansen (USC Marshall)

**Workshops and conferences**

**2 – 3 November 2023:** DNB annual research conference

**Challenges for monetary policy during normalization**

This year's conference will focus on main challenges for the design and implementation of monetary policy in the context of the post-pandemic central bank balance sheet normalisation and rate hikes, taking into account the ongoing evolution of central banks' operational frameworks. In addition, the conference will cover financial stability considerations related to the monetary tightening cycle and possible central bank responses.

Keynote speakers are Klaas Knot (President of DNB), Annette Vissing-Jorgensen (Federal Reserve Board) and Stephen Cecchetti (Brandeis International Business School). We aim to provide a platform for researchers from academia, central banks, and other policy institutions to present and discuss their findings related to these issues.

program and registration

**18-19 December 2023: 2nd XAmsterdam Macroeconomic Workshop**

This workshop will consider contributions from all fields of macroeconomics, both theoretical and applied, with particular attention but not exclusive, to the following sub-fields/topics:

a. Money-macro

b. Firm Dynamics and Productivity

c. Expectations and the Macroeconomy

d. Monetary Policy and Heterogeneity

e. Labor Markets

f. Public Finance

g. (Consumption, Income and Wealth) Inequality

h. Identification in Macroeconomics

**Keynote speakers**: Monika Piazzesi (Stanford University) and Martin Schneider (Stanford University)

## Other news

Petar Vukmirovic was a keynote speaker at the Institute for Programming research and Algorithmics (IPA) Fall days. At that occasion, he also received an award for the best thesis that appeared in his research area in 2022. His thesis was entitled "Implementation of higher-order superposition".

## Research highlights, details

### 1.The effects of fiscal policy when planning horizons are finite

We show that planning horizons play a crucial role for the value of fiscal multipliers. In particular, when agents have shorter planning horizons, government spending multipliers are smaller, whereas labor income tax multipliers are larger. This implies, for instance, that as horizons shorten, fiscal consolidations based on government spending cuts tend to be less costly. The results are mainly driven by the mistakes of agents' expectations about key variables, like the future real interest rate. Finite horizons give rise to significantly amplified investment responses following fiscal shocks, which are more in line with empirical evidence compared to the muted investment responses implied in models with longer planning horizons but with rule-of-thumb households or in models with heavier discounting like the Blanchard-Yaari New Keynesian model.

**Read more?**

See DNB Working Paper 717 The Effects of Fiscal Policy when Planning Horizons are Finite by Joep Lustenhouwer and Kostas Mavromatis. Go to the Top .

### 2. Deposit market concentration and monetary transmission: evidence from the euro area

In response to high inflation, policy rates have swiftly increased in the euro area and elsewhere, but banks have raised deposit rates much more slowly. At the same time, deposit rates across euro area countries have somewhat diverged, with banks in some countries hiking rates more quickly than elsewhere. Understanding the sources of this divergence may be helpful to assess the potential need for policy interventions.

**Read more?**

See DNB Working Paper 790 Deposit market concentration and monetary transmission: evidence from the euro area by Stephen Kho. Go to the Top.

### 3. The Long-Run Phillips Curve is … a Curve?

We study the empirical relation between inflation and output in the long run, commonly known as the long-run Phillips curve (LRPC). A VAR with stochastic trends provides evidence in favor of a non-linear and negatively sloped LRPC: higher trend inflation is related to lower potential output. In particular, we estimate a threshold level of trend inflation of around 4% below which potential output is independent of trend inflation, and above which every percentage point increase in trend inflation is related to about 1% decrease in potential output per year. This relation is interpreted through the lens of a New Keynesian model generalized to admit time-varying trend inflation and estimated via particle filtering. The LRPC estimated through the structural model is consistent with the one estimated through the VAR. The inference in both models points to a loss in potential output of about 2% per year during the Great inflation period.

**Read more?** See DNB Working Paper 789 The Long-Run Phillips Curve is… a Curve by Guido Ascari, Paolo Bonomolo and Qazi Haque

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### 4. Safe asset scarcity and re-use in the European repo market

We construct the first measure of collateral re-use at the bank and bond level for the European repo market using the Money Market Statistical Reporting (MMSR) a regulatory transaction dataset. The MMSR is a very rich, transaction-level data set covering most of the European mark money market. Re-use is a widespread practice in the financial wholesale market where dealer banks intermediate government bonds using Securities Financing Transactions (SFTs), e.g., repurchase agreements, security lending transactions, or margin loans. This temporary exchange of cash for collateral assets allows dealers to first source safe assets on the market and subsequently sell them onward to third parties, known as re-use. Our results contribute to the policy debate on trade-offs between shock absorption and financial stability risks of collateral re-use.

**Read more?** See DNB Working Paper 787 Safe asset scarcity and re-use in the European repo market by Justus Inhoffen and Iman van Lelyveld

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**5. PhD Defense – interview with Tom Hudepohl**

**What are your main findings?**

I investigated the effects of the Eurosystem's unconventional monetary policy on the behaviour of investors, as well as its side-effects on financial markets. For example, I find that Quantitative Easing contributed to exuberance on European stock markets. Moreover, the purchases by the Eurosystem reduced the amount of bonds that are available to be traded in financial markets. This contributes to frictions in financial markets, as it becomes more difficult for investors to find specific securities.

**The ECB is now tightening its policy – are your findings still relevant?**

The findings remain relevant as they inform policymakers about lessons for future policy, in particular since the different monetary policy instruments will remain an integral part the ECB's toolkit going forward (see also the outcome of the ECB's Strategy Review). Additionally, I find that it has become harder to accurately estimate banks' total demand for central bank reserves in the euro area. This is particularly relevant against the background of the ongoing normalization of the Eurosystem's balance sheet, as it could complicate a transition from the current environment with record high levels of excess liquidity towards lower levels of reserves.

**Read more?** See Tom's Thesis

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**6. PhD Defense – interview with Annick van Ool**

**What is your research about?**

Our society is aging, leading to an increase in pension costs. Therefore, pension systems worldwide are being revised to enhance their sustainability, also in the Netherlands. Hybrid pension schemes, such as collective defined contribution (CDC) schemes, are gaining popularity due to a number of attractive features such as limited risks for sponsors, sharing of longevity risk, and lower administrative and investment costs. In my thesis, I have explored four essential economic principles for designing a sustainable pension scheme: fairness, efficiency, insurance, and accountability.

**What did you find?**

I demonstrate that a CDC scheme does not necessarily comply with the fairness and efficiency principle, but that a CDC scheme can be designed in such a way that it complies with these two principles. I also show that sharing macro-longevity risk between generations in a pension contract as a risk management tool provides welfare benefits and that employees can provide insurance for the macro-longevity risk of retirees. Finally, I investigate the accountability principle by analyzing the sustainable investment policies of Dutch pension funds. I show that signing a sustainable investment initiative increases attention to sustainable investing, but I find no effect on the implementation of sustainable investing.

**How did you experience doing a part-time PhD?**

It was very interesting to combine my work at DNB with writing a dissertation. All three chapters of my dissertation were inspired by my daily work at the bank. Of course, the combination was also quite challenging at times. Fortunately, DNB has given me the flexibility to regularly work on my dissertation in a focused manner.

Reed more see Annicks thesis

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