**Thomas Werner**

# Discussion

# New Perspective on Monetary Operations and Repo Markets Before and During the Crisis

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# What is the paper about?

- **Analyses the transmission from monetary policy operations to the volume of secured interbank trading**

- **For the crisis period the focus is on the contribution of monetary policy operations to trading activity in the secured interbank market**

- **Reflects on the best way to go back to "normal"**

# The model/econometrics

- **Pre-crisis model: (structural) VAR in block-recursive form**

- **Crisis model: structural model with VMA(1) reduced form**

- **Data is transformed into "auction frequency" before used with the models?**

- **Event study analysis of VAR erorrs**

# The results

- **Pre-crisis:**

- Some evidence of substitution between repo activity and recourse to monetary policy operations (auctions). But it is only instantaneous

- Aggressive bidding in auctions is followed by higher repo activity

- **Crisis:**

- Some evidence for positive contribution of policy measures on repo activity

# Discussion

The paper is very important as it discusses the repo market and the relative and absolute size of the repo market is increasing
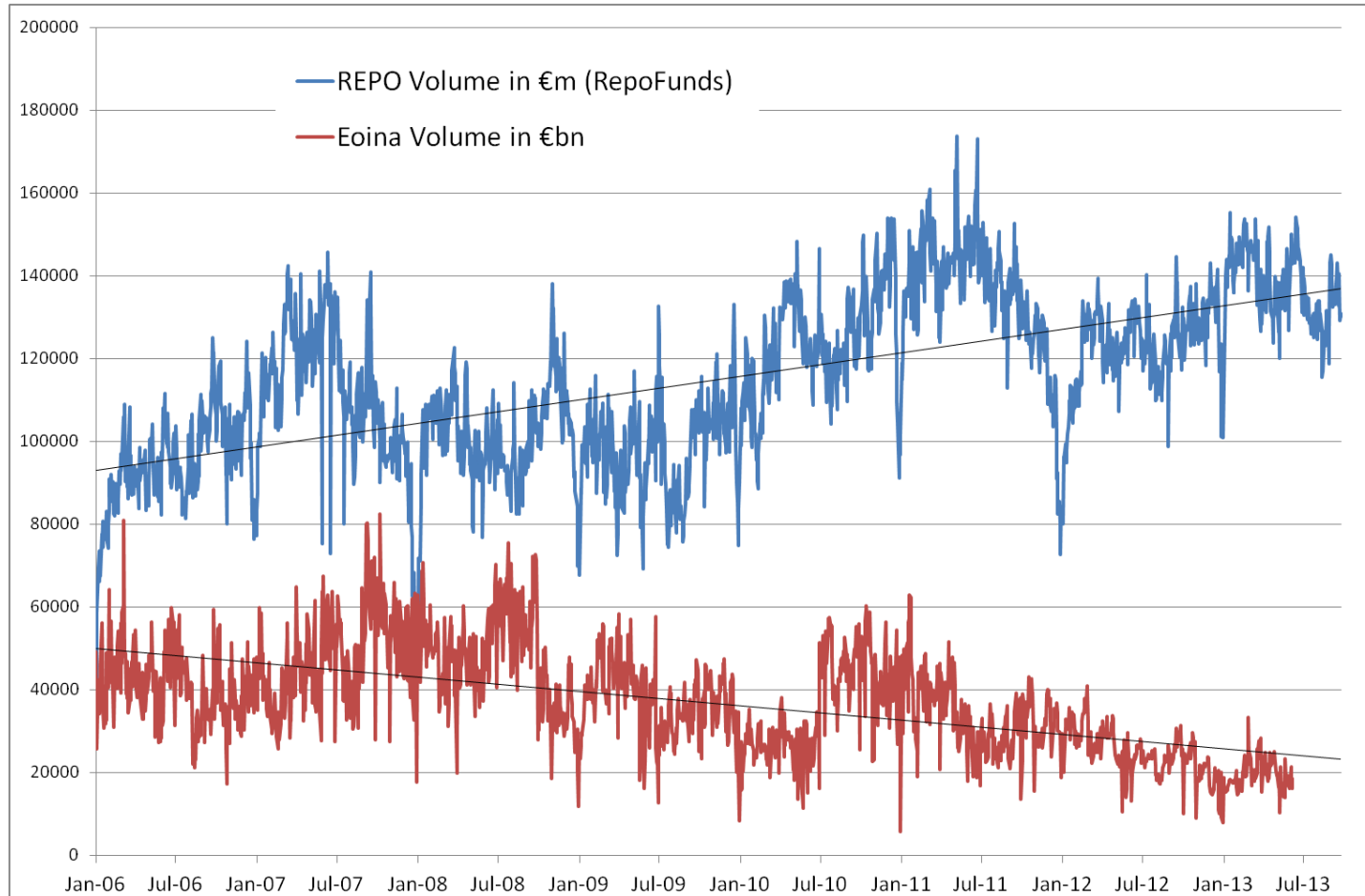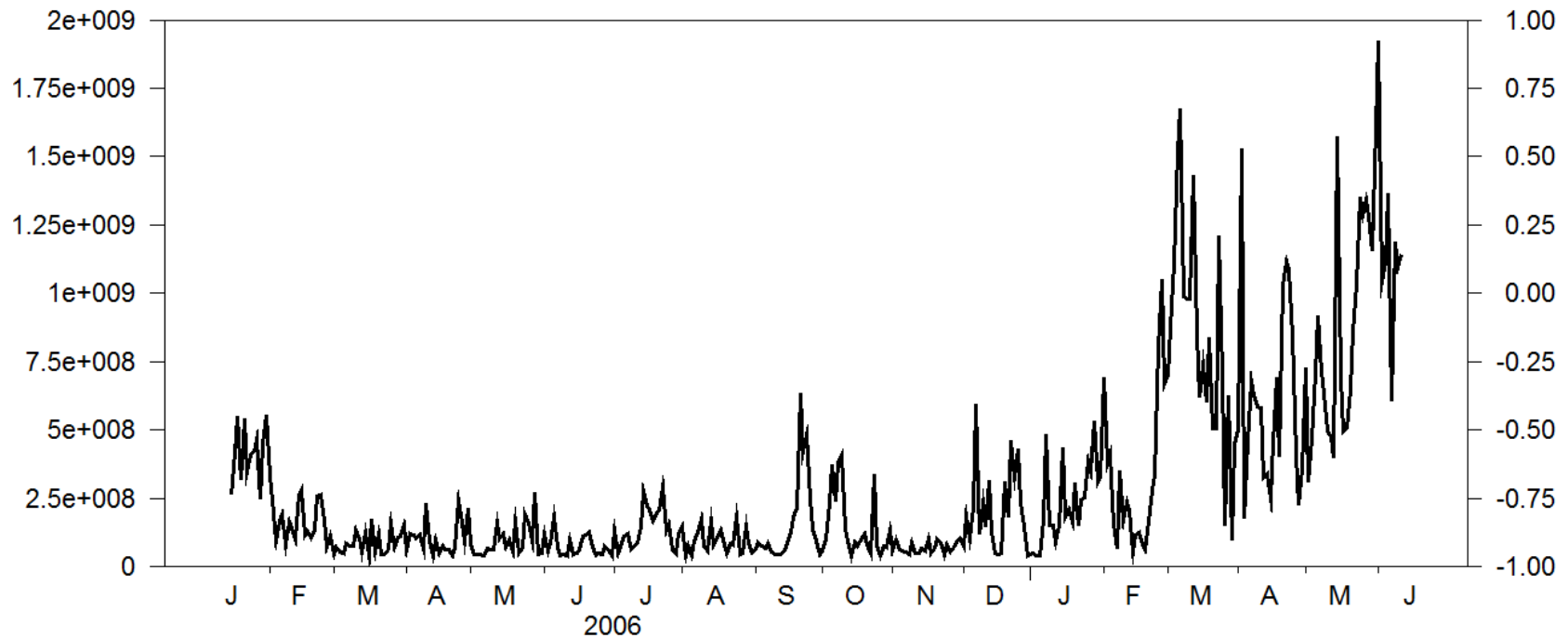
# Discussion

- **The paper could motivate better the difference between pre-crisis and crisis analysis**


- **Why can the pre-crisis model not be nested into the crisis model?**


- **The paper should in more detail explain the transformation to "auction frequency"**

- **Sensible alternatives are:**
  - **Mi(xed) Da(ta) S(ampling) [MIDAS] approach by Ghysels and co-authors**
  - **Mixed frequency VAR by (for example) Schorfheide**

# Discussion

- **What about ARCH/GARCH effects?**
- Even in the pre-crisis period Jan-2006 to June-2007 there are strong ARCH effects and much more in the crisis period

# Discussion

- **What about the interaction of secured and unsecured interbank markets???**

- **What about repo rates???**

| OLS | R2 |
|---|---|
| Repo volume on Eonia volume (pre-crisis) | 1% |
| Repo volume on Eonia volume (crisis) | 15% |
| Repo rates on Eonia rates (pre-crisis) | 99% |
| Repo rates on Eonia rates (crisis) | 99% |

# Discussion of policy conclusions

- Policy conclusion 1 + 2 (counterparty risk + collateral for repo):
  - Insurance of counterparty risk. Who shall do this? SSM + SRM will reduce risk.
  - Improved collateral availability in repo markets might interfere with exit from collateral measures

- Policy conclusion 3 + 4:
  - Raising interest rates with fixed rate full allotment (FRFA): very much in line with the possibility of raising interest rates "at any point in time" as communicated by the ECB (separation principle)
  - Going back to variable tender operation, ok

- But: What will be the "new normal"? Especially interaction and relative importance of unsecured and repo markets not clear.

- Policy conclusion 5:
  - Very important!!! But difficult. Some progress using Target data

# Conclusion

- **Very interesting paper**

- **The paper could focus more on the main elements (presentation is much more focused)**

- **The paper could better motivate the difference between pre-crisis and crisis model: Why not nest the pre-crisis model into a crisis one?**

- **Interaction between unsecured and repo market is crucial**