


# NBRM RESEARCH CONFERENCE

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▶ **Comments on Altin Tanku and Kliti Ceca, “Has the crisis changed the monetary transmission mechanism in Albania? An application of kernel density estimation technique”**



- ▶ The relationship between interest rate, money and inflation in Albania during the pre- and post-Crisis period.
- ▶ The multidimensional density estimation technique to estimate and project two dimensional densities of inflation, money and interest rates plus the K-S test.

Subject and methodology



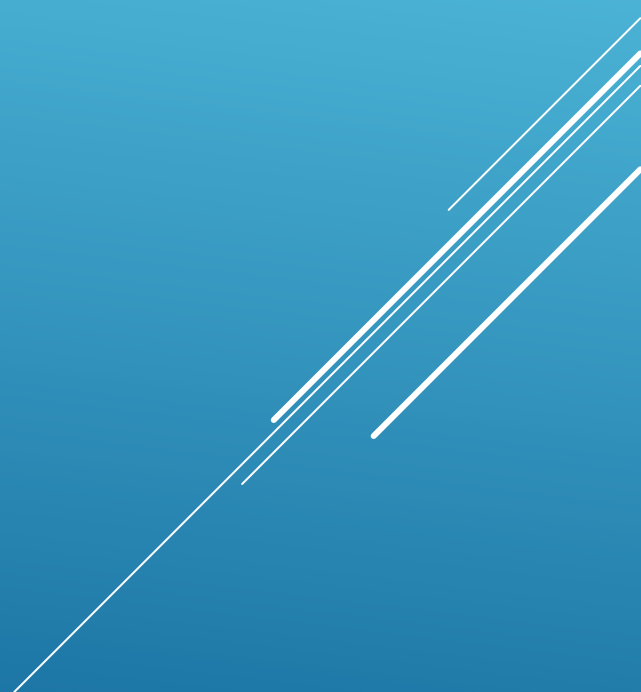
- ▶ Before the Crisis: weak relationship between money growth and the policy rate; after the Crisis - positive relationship.
- ▶ Before the Crisis: no relationship between the policy rate and inflation; positive relationship in the post-Crisis period; “the inflation response to policy rate takes the expected sign only in the 0-2.5 repo interval”.
- ▶ The K-S test confirms that the policy rate-inflation and the policy rate-money growth relationships differ between the two periods, i.e. they come from different probability distributions.

## Main findings

- ▶ The money-policy rate link – endogeneity of money in SOE with IT.
- ▶ The findings are not surprising due to the structural break.
- ▶ The policy rate-inflation link: horizontal and positive relationship, “slight negative response of inflation”, “the magnitude of response is small”, “the policy has been effective” .... Overall, the findings are not very encouraging for the central bank.
- ▶ Bivariate analysis, richer lag structure, complex transmission mechanism.
- ▶ The limitations of the methodology.

## Some remarks

Comments on Leo de Haan and Jan Willem van den  
End, “The signalling content of asset prices for inflation:  
implications for quantitative easing”, DNB Working Paper  
No. 516, July 2016.

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- ▶ The information content of financial variables in signalling high inflation or low inflation (deflation).
- ▶ Equity and house prices, private credit, and sovereign and corporate bond yields, for 11 advanced economies.
- ▶ The signalling approach (ROC Curve) and the discrete choice modelling approach

## Subject and methodology

- ▶ High asset prices are much better predictors of high inflation than low inflation/deflation.
- ▶ In some countries, high asset prices and low bond yields are significant indicators of low inflation or deflation.
- ▶ The time lag from rising asset prices to inflation can be quite long (up to 8 quarters)

## Main findings



- ▶ Historical patterns of business cycles and market crashes.
- ▶ Different transmission channels between asset prices and inflation.
- ▶ Multivariate analysis – VARs?
- ▶ How to define high inflation and deflation?
- ▶ Reference values for the signalling variables?
- ▶ Some other indicators.
- ▶ Policy implications.

Some remarks