Discussion of "*How unconventional is green monetary policy?*" by Melina Papoutsi, Monika Piazzesi and Martin Schneider

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Women in Macro, May 2022

Motivation: Central Banking and Climate Change

PRESS RELEASE

ECB presents action plan to include climate change considerations in its monetary policy strategy

8 July 2021

The ECB's Governing Council is strongly committed:

- to further incorporating climate change considerations into its monetary policy framework;
- to expanding its analytical capacity in macroeconomic modelling, statistics and monetary policy with regard to climate change;
- to including climate change considerations in monetary policy operations in the areas of disclosure, risk assessment, collateral framework and corporate sector asset purchases;

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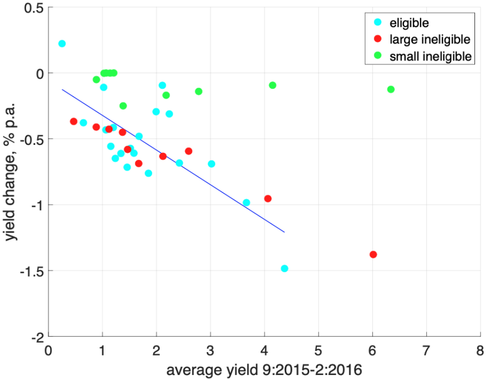
- 3 key insights:
  1. Current ECB purchase policy favors risky firms
  2. Market neutral policy doesn't typically exist
  3. Market neutral is generally not optimal
- What does this have to do with climate change?
  - ECB purchases favor dirty sectors in particular
    - Dirty sectors issue more bonds
    - One of the risks lowered by ECB purchases is climate (policy) risk

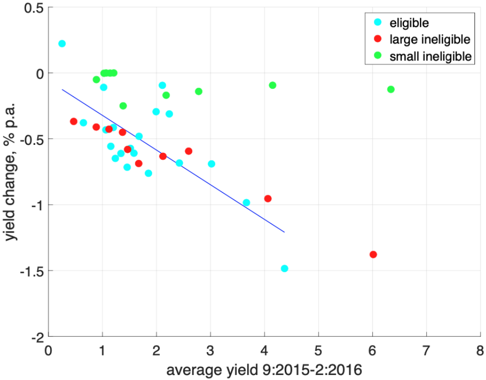
Reviewing Empirical Evidence

- Key Finding 1: ECB purchases change spreads (i.e. non-market neutral)
  - Downward slope of blue dots



Reviewing Empirical Evidence

- Key Finding 2: ECB purchases affect spreads by changing price of risk
  - Red dots look similar to blue dots, green dots look different



Extension 1: Explicitly quantify small effect on individual bonds prices

- Figure shows blue dots are a little steeper than red dots – is that substantive?
- Could use this data to nail the finding that there was no effect on individual bond prices
- Possible approach: look for cutoffs in eligibility rules
  1. Must be denominated in euros
  2. Credit rating cutoffs
  3. Remaining maturity between 6 mos. and 31 years

Extension 2: Probe the role of intermediaries

- Lingering concern: confounding factors drive both red and blue slopes
  - Could something else in this period have led to a decline in the risk premia?
  - e.g. other aspects of March 2016 ECB announcement, other economic developments

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- Two suggestions to sharpen the test:

1. Is there any direct evidence on the holdings of intermediaries to test for the role of segmentation?
   - What are the characteristics of small ineligible bonds versus large ineligible bonds?
2. Are there rules for pension funds that you could use to sharpen the test?
   - Suppose pension funds can generally only hold bonds where at least $100M were issued. This would be a sharp cut-off around which we may expect the bond effects to change

Extension 3: Link this analysis to emissions/heterogeneity

- How does this analysis link to the evidence on dirty vs. green sectors?
  - Show where the dirty sectors are in the distribution (i.e. are they riskier?)
  - Back of the envelope combining the debt-equity effect and the risk premium effect
  - Could be interesting to document the extent to which portfolio is non-neutral along other dimensions as well
    - Pandemic risks (e.g. high contact sectors)
    - Trade war risks (e.g. trade patterns)
    - Other geopolitical risks (e.g oil dependence)

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- Scenario 3: Suppose ECB wants to implement optimal policy and cares about emissions
  - Yes! They should buy more green bonds (reduces negative externalities)

Conclusion

- Very interesting paper exploring policy relevant question
- Data is rich and extensions could help nail empirical facts
- Policy prescription is stark