

RESEARCH FUNCTION IN THE ESCB

Guillaume Horny

Banque de France

ESCB intro seminar, Bruxelles, 18/11/2014

Research: a sizeable share of the workforce

Institution	Number of Authors
European Central Bank	152
Banca d'Italia	146
Banque de France	127
Bank of Canada	78
Bank of England	57
de Nederlandsche Bank	47
Bank for International Settlements	44
Banco de Espana	42
Sveriges Riksbank	38

Sources: Repec

According to the Bundesbank website, the research activity there involves about 55 individuals

Why research at central banks?

1. To inform and support the policy process with skills of academic standards
2. Academically oriented economists can model economic circumstances not ordinarily, if ever, encountered in reality and develop strategies for dealing with them.
3. To attract, maintain and enhance human capital
4. Contribute to the credibility and reputation of the central bank by improving its communication with the public and other policy-making institutions

The organization of research

A “**researcher**” at a central bank is an individual whose central task are:

- producing original, publishable research in areas of interest to the bank,
- contributes with his/her specialized knowledge to the improvement of the policy process.

There are a number of ways of **organizing** the research function. In one approach, it is centralized in a single department. In another approach, each business area has its own research group. In practice, most central banks follow an approach in between

Typical research questions (1/2)

- Monetary policy
 - What are the merits of the different policy tools? Conventional ones? Forward guidance? Long-term refinancing operations? Quantitative easing?
 - Sovereign debt crisis and the fragmentation of the euro area?
 - How does the yield curve react to different events?
- Financial Economics
 - Provide measures of systemic risks
 - Assess bank vulnerabilities and consequences of new regulations on banks, such as Basel III
 - Asset pricing (how to value collateral?)

Typical research questions (2/2)

Further areas include also:

- Structural reforms
 - Assess consequences of new taxes schemes, of labour market reforms...
- International trade
 - How do behave exporters, optimal sourcing under imperfect markets...
- Microeconomic studies
 - Wage and price dynamics, household wealth and consumption, access to bank funding...
- Forecasting
 - Improving their methodology, use of DSGE...

Eurosystem research networks

- Research networks involve national central banks from the Eurosystem on a given research question
- Previous networks:
 - Monetary transmission network, Inflation persistence network, Wage dynamic network, Household Finance and Consumption network...
- Networks last often about 3 years, sometime involve new surveys, result in a final report and several papers of academic standards

Example: The wage dynamics network (2006-2009)

- The Inflation Persistence Network suggested that stickiness in wages and labour costs may be one of the driving factors behind the slow adjustment of prices in the early 2000s
- The objectives of the WDN were:
 - to identify the sources and features of wage and labour cost dynamics that are most relevant for monetary policy
 - clarify the relationship between wages, labour costs and prices both at the firm and macro-economic level
- The network involved about 80 researchers, organized in groups (micro, macro, survey and meta groups). Meetings occurred every 6 months. Two ad-hoc surveys have been created and run, approximately 55 papers resulted from the network

Some findings from the Wage dynamic network

- The combination of collective wage bargaining that takes place outside the firm, stringent employment protection and lack of competition in the goods market leads to higher wage rigidity and a stronger response of employment to shocks
- Wage rigidities complicate monetary policy :
 - they increase the cost of stabilizing inflation in the face of cost-push shocks
 - nominal downward wage rigidity contributes to inflationary pressures and provides a rationale for maintaining a small inflation rate to “greases the wheels”
- Wage rigidities slow down the adjustment process across countries, regions and sectors, may lead to persistent inflation differentials within the euro area and induce competitiveness losses vis-à-vis more flexible economies, thereby reducing the cohesion of the monetary union

Research activity out of research networks

- A huge part of the research activity is conveyed out of Eurosystem research networks.
- My own recent projects are entitled:
 - What is the impact of the 2008 crisis on firms' defaults?
 - Capital utilisation and retirement
 - Wage inequalities in France: The role of composition effects
 - The stability of interest rates pass-through in the Euro area during the financial market and sovereign debt crisis
 - Asymmetric cost of funding in the Euro area corporate debt market

Thank you for your attention!

`guillaume.horny@banque-france.fr`