

# The Changing Framework of Monetary Policy Operations

4-day intensive residential programme  
18 – 21 September 2012

Christ's College, Cambridge

Course Chairman:

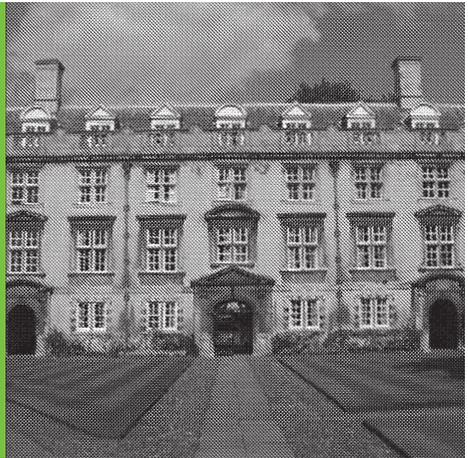
**Jesper Berg**

Senior Vice President Regulatory Affairs,  
Nykredit and former Head of Market  
Operations, National Bank of Denmark

Series adviser:

**Charles Goodhart, CBE**

Professor Emeritus  
London School of Economics  
Financial Markets Group



# Dear Delegate,

Since the global financial crisis, monetary policy operations have been thrust into the spotlight. The line between monetary policy and financial stability has blurred as central banks have been forced to intervene to maintain stability and confidence in markets.

Alongside this proactive monetary policy implementation, central banks are taking corrective measures to ensure sufficient and accessible levels of liquidity. Yet central bankers must remain wary, not least with balancing domestic and external conditions. The long-term implications for the central bank's balance sheet are also, increasingly a concern. For monetary operations specialists this presents a series of technical challenges. As policy makers seek to reorient their markets and economies to retain competitiveness in the post-crisis environment, there is a growing premium placed on precise implementation and effective communication.

This seminar provides central banks' monetary operations teams with the tools to meet these challenges. This year's four-day programme of interactive roundtable seminars and workshops highlights the key practical lessons at a time of heightened attention on their performance, demonstrating where they can add value.

The panel of expert speakers combines practical central banking experience and

expertise in the technical aspects of operations, as well as views from private sector experts. With the chance to network and share insights from monetary operations specialists from around the world, this course is an unrivalled form to address key concerns and priorities for central bankers.

The expert panel of speakers includes:

- **Benjamin Sahel**, European Central Bank
- **Dave Altig**, Federal Reserve Bank of Atlanta
- **Frank Nielsen**, National Bank of Denmark
- **Mika Pösö**, Bank of Finland

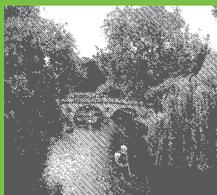
This format, as more than 3,500 central bankers, debt managers and supervisors can attest, encourages delegates to quiz speakers, raise issues and discuss solutions to the specific challenges they face.

We look forward to welcoming you to Cambridge on September 18th.

Yours sincerely,



Robert Pringle  
Chairman  
Central Banking Publications



“ The quality of the course was very good ”

*Donator Buongerino, Bank of Italy*

# Tuesday 18 September

## Lessons from the crisis

### New challenges, new risks

**Jesper Berg**, Senior Vice President, Regulatory Affairs and Ratings, Nykredit and former Head of Market Operations, National Bank of Denmark

In this opening session the course chairman will outline the evolution of central banks in managing domestic liquidity and the challenges facing contemporary monetary policy operations. Delegates will be invited to give a brief account of the main features of their current systems and the specific challenges they expect to face or are facing in monetary operations. The aim will be to outline the requirements for a successful operating framework and identify key topics of interest to the group for attention in later sessions.

### Effective transmission of monetary impulses to markets

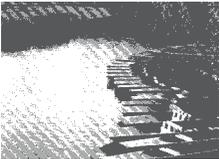
**Benjamin Sahel**, Head of Market Operations Analysis Division, European Central Bank

The widening of spreads in longer-term European money markets presented a significant challenge to the Eurozone's central bank. As rates diverged from the policy rate, the transmission of monetary policy threatened to breakdown and the central bank took extraordinary action. In this session, the speaker will discuss how the Eurosystem tackled this near-dislocation from an operational perspective and the lessons that can be drawn from this episode. Discussion will also consider the importance of the collateral policy in an era of elevated sovereign risk.

### Workshop: a roadmap for monetary policy operations

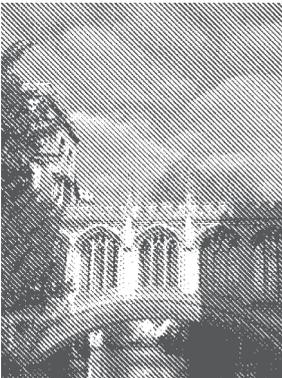
Led by the chairman **Jesper Berg**

In this session, participants will discuss the findings of a questionnaire carried out among the group. Topics for discussion will include implementing policy, a comparison of monetary policy frameworks across jurisdictions and market interaction. Throughout the focus will be on practical solutions to real world issues. Conclusions will be drawn on emerging good practice in the field.



“ This is a good seminar to discuss and share our experiences and broaden your network. ”

*A central bank delegate*



#### About the course chairman

**Jesper Berg** is senior vice president, regulatory affairs and ratings, Nykredit and a former head of market operations, National Bank of Denmark. In this latter role Mr Berg was responsible for inter alia the day-to-day management of the krone exchange rate, monetary policy liquidity operations, the primary sale of Danish government bonds, the management of foreign exchange reserves and the management of the banks domestic bond portfolio. He was previously head of the Capital Markets and Financial Structures Division at the European Central Bank and has also been an economist at the International Monetary Fund (IMF). He holds an MBA from IMD in Lausanne and a degree as Cand. Polit. from the University of Copenhagen.

# Wednesday 19 September

## Operational challenges

### Changes in the Federal Reserve's operational framework: an assessment

**David Altig**, Senior Vice President and Director of Research, Federal Reserve Bank of Atlanta

"Extraordinary times call for extraordinary measures" was how Chairman Ben Bernanke explained the Federal Reserve's decision to develop and then implement unconventional monetary policy tools. In this session, the speaker will review the key elements of the programme of credit easing and their implementation and evolution. The speaker will compare these operations and their impact on the central bank's balance sheet with the unconventional policies implemented in the Eurozone and the UK. He will also discuss the question of paying interest on deposits and the choice of policy rate. The session will conclude with an assessment of the impact the Federal Reserve's policies have had on markets and the broader economy and the lessons other central banks can draw from the experience.

### Capital flows: exchange rate regime and monetary policy

**Frank Nielsen**, Head of Market Operations, National Bank of Denmark

Capital mobility confronts central banks with some difficult choices in implementing monetary policy. This session will explore these in the context of a fixed exchange rate regime. Particular attention will be given to the use of instruments and choice of markets for domestic and foreign intervention. The impact on exchange rates, interest rates, yields and inflation will be considered.

### Conducting monetary policy: sterilisation and capital inflows

Speaker to be confirmed

While inflation targeting remains the fashionable way to make monetary policy, a 'pure' approach is not possible in all markets. A number of emerging markets have for several years operated a 'dual target' regime [as acknowledged by a recent IMF paper.] This session looks at the mechanics of this approach with the particular reference to sterilisation: the debt used to absorb the liquidity, the impact on markets and the implications for central bank profits and capital.

### Challenges to monetary policy: the art of the graceful exit

**Morten Bech**, Senior Economist, Bank for International Settlements

With conditions in the financial markets and the real economy improving, central banks are considering ending the use of unconventional measures. However, when taking such steps, it is important to respect not only monetary policy objectives and the inflation outlook, but also increasingly the financial stability implications, in particular those for the banking sector. In this session, the speaker, drawing on new research, will illustrate how exit strategies from unconventional monetary policy measures are being implemented by selected central banks in the post-crisis environment. Discussion will focus on assessment of these banks and the lessons that can be learned.

### Workshop: what is the future of central bank collateral policy?

Led by **Morten Bech** and **Jesper Berg**

The financial crisis turned traditional central bank collateral policy on its head. In 2011–12, heightened sovereign risk damaged the standing of paper central banks rely on. This session will explore the implications of these developments for collateral policy. What paper should central bank take? Should they widen the scope still further? Will things return to 'normal'?



👏 Standing ovation for the idea of the conference, its venue and organisation. 🗨️

*A central bank delegate*

Thursday 20 September

## Effective implementation and liquidity forecasting

### The infrastructure of emergency liquidity assistance

**Nuno Cassola**, Adviser, European Central Bank (invited)

Recent events have shown that threats to the financial system can emerge suddenly and with intensity. It is at these crisis points that the central bank may be called upon to be the 'lender of last resort' and provide emergency liquidity assistance. In this session the speaker will discuss their experiences of ELA as part of general crisis management and resolution and discuss practical examples of implementation. Further topics for discussion will include internal procedures for ELA – organisational structure, analysis plan, information strategy, plan for implementation and legal procedures.

### Design of Auctions

**Paul Fisher**, Executive Director, Markets, Bank of England (invited)

Increasingly, monetary policy is implemented by steering short-term interest rates indirectly through the control of liquidity to the banking system. One established method of creating a flow of liquidity between the central bank and the market is to perform a tender or auction in which the central bank subsequently determines the flow of liquidity to be effected to or from any commercial bank. This process is, therefore, critically important for the effectiveness of monetary policy implementation. In this session the speaker will propose effective methods to develop an understanding of the incentives shaping bidding behaviour at such auctions.

### Delivering accurate and timely liquidity forecasts

Speaker to be confirmed

In this session, the speaker will outline the key features of their liquidity forecasting system, discussing how this has changed and any plans for further development. The group will be invited to discuss the component parts of the forecast and the resources needed for producing it. Lessons will be drawn out with a view to distilling a good practical framework.

### New uses for liquidity tools

**Jagjit Chadha**, Professor of Economics, Chair in Banking and Finance, School of Economics, University of Kent

This session will highlight the new uses central banks are putting liquidity or open market operations (OMO) to. Essentially to smooth short, or temporary, term shocks to the balance sheets of financial intermediaries, these short-term tools have developed significantly since the start of the financial crisis as extensions have been used to (i) provide ongoing liquidity to financial intermediaries; (ii) offset the zero lower bound of monetary policy and (iii) provide a new set of tools for macro-financial liquidity. The speaker will discuss these changes and compare the day-to-day forecasts required for OMOs with the requirements during crisis or stress periods.



👍👍 Excellent gathering for central bankers,  
the choice of venue is perfect. 🗨️

*A central bank delegate*

# Friday 21 September

## Communications and dialogue

### Talk is not cheap: market interaction and communication

**Kevin Gardiner**, Managing Director & Head of Investment Strategy, EMEA, Barclays Wealth

Monetary policy operations do not exist in isolation. In fact, central banks need to make sure they work with financial markets when implementing monetary policy. It is a collaborative as well as competitive space. The speaker will discuss from a private-sector perspective how central bankers should manage their relationship with the markets, what market priorities for central bank operations might be and how to consult with markets. Particular attention will be devoted to assessing how central banks communicated as markets started to seize up.

### Effective communication and collecting market intelligence

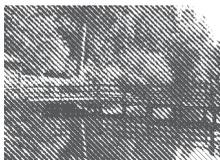
**Mika Pösö**, Head of Communications, Bank of Finland

Central banks rely on their presence in financial markets as a means of generating intelligence that can be used to support other functions, particularly the emerging financial stability function. But to what extent should those involved with monetary operations be responsible for gathering this information and could it impact their relationship with market participants? This session will also consider the broader question of how the central bank can effectively communicate information to financial markets about its operations, objectives and policies.

### Closing remarks

Led by the chairman

The course concludes with a session summarising the week's key themes and issues. Participants will identify and discuss how the experiences and ideas from earlier sessions could be specifically applied to their own institution's challenges.



👍 Very interesting and useful seminar.  
Thank you. 🙏

*A central bank delegate*

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### The venue

Christ's College is one of England's oldest university colleges and traces its origins back to 1439 when it was founded by William Byngam as "God's house" and adopted by King Henry VI.

The college is conveniently situated in the heart of Cambridge surrounded by all the historical sites, and is one hour by train from London.

### About Central Banking Publications

Central Banking Publications' events division is the leading independent organiser of public policy seminars/training courses for the official sector. Since 1997, CBP has hosted roundtable seminars and training courses for over 3,500 senior policymakers from central banks, ministries of finance and financial regulatory agencies around the world. Senior officials from more than 120 countries have attended these meetings over the past ten years.

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Organisation: \_\_\_\_\_

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