Monetary policy beyond normalisation

BFF, SUERF “Ten years after the start of the crisis”

Maria Demertzis

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Introduction

1. Monetary policy and financial stability: Targeting financial imbalances?

2. Increasing the inflation target? A better way to price stability?

3. Conventional vs unconventional tools are here to stay. More tools or more risks?
Targeting financial imbalances


“...the interest rate affects the regulator’s entire possibilities frontier. Both credit supply and bank soundness are affected by monetary policy, and therefore the entire environment in which the regulator operates responds to monetary conditions.”
1. Does aiming for higher inflation avoid periods of disinflation more effectively?

2. Is the objective of price stability better served by such a higher target?
3. Can we manage the transition?

- Canada: target reviewed every 5 years
- UK: target fixed every year, revised in 2003
- Japan changed target in 2012 and 2013
- US only adopted formal target in 2012
- EZ evaluation of strategy in 2003 during which 2-pillar strategy was modified and definition of price stability clarified
Increasing the inflation target (3)
Increasing the inflation target (4)
Standard vs non-standard tools (1)

Neutral interest rate estimates $r^*$ (%)

Source: Holston, Laubach, Williams (2016)
Standard vs non-standard tools (1)
Standard vs non-standard tools (1)

Source: Bruegel based on Bloomberg, ECB, AMECO
Standard vs non-standard tools (2)
Thank you